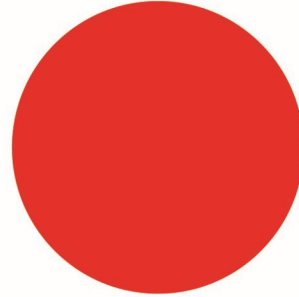


BUILDING THE



# INDIA-JAPAN PARTNERSHIP

STRATEGIC  
COMPULSIONS AND  
INDO-PACIFIC  
IMPERATIVES

一般財団法人

鹿島平和研究所

Kajima Institute of International Peace

**BUILDING THE  
INDIA-JAPAN PARTNERSHIP**

*Strategic Compulsions and Indo-Pacific Imperatives*



# BUILDING THE INDIA-JAPAN PARTNERSHIP

*Strategic Compulsions and Indo-Pacific Imperatives*

*Edited by*

Jagannath Panda  
Tatsuo Shikata

一般財団法人

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Kajima Institute of International Peace

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## *Foreword*

The following essays represent the fruits of a workshop on enhancing India-Japan political and business relations by Indian and Japanese practitioners and scholars sponsored by the Kajima Institute of International Peace (KIIP). The workshop met 25 times over 32 months between July 2020 and March 2023, roughly coinciding with when the global COVID-19 pandemic ran wild.

The workshop was conceived by Mr. Shikata Tatsuo, a Policy Committee member of the Japan Forum on International Relations (JFIR), an NPO. He knew Dr. Sakamoto Masahiro, a trustee of KIIP, through their affiliations with JFIR. The author was introduced to Mr. Shikata by Dr. Sakamoto toward the end of 2019. In February 2020, Mr. Shikata formally proposed the establishment of a workshop on enhancing India-Japan relations at KIIP with India-based practitioners and scholars and Japanese practitioners and scholars. The Board of Directors at KIIP was very eager to approve and fund the proposed workshop, given the growing importance of India against the backdrop of FOIP and QUAD.

The workshop consisted of seven Indian and six Japanese representatives whose backgrounds vary: scholars studying South Asia, Chinese politics, Indian diplomacy, Indian economy, national security, former high-ranking trade official, ex-Shoshaman (*shosha* means ‘trading company’ in Japanese, it is essentially an energy company), and a director of global construction & engineering company, for example. The workshop also invited diverse practitioners and scholars as speakers. They hailed from Australia, France, Germany, Indonesia, Netherlands, Philippines, Sweden, Taiwan, the UK, the USA, and Vietnam.



This booklet has varied in scope and depth, as seen in the executive summary and table of contents. With dynamic and diverse India and mature and indecisive Japan, it must be expected to be that way. The sequel workshop has already been underway since April 2023. This time, the workshop includes practitioners and scholars from Europe and seeks to explore the possibility of reorganizing the global supply chain from an economic national security perspective.

Finally, I extend my genuine gratitude toward Mr. Shikata and his counterpart in India, Dr. Jagannath Panda, for their extraordinary dedication and efforts in managing and running this workshop for 32 months, keeping diverse and multinational participants and speakers on track.

May 2023

*Hiraizumi Nobuyuki*  
*President, Kajima Institute of International Peace*

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**Amb. Ujal Singh Bhatia** (Retd.) was appointed to the Appellate Body of the WTO in November 2011, where he served till March 2020. During this time, he was appointed Chairman of the Appellate Body twice (in 2017 and in 2018). Prior to his term with the Appellate Body, Mr. Bhatia served as India's Ambassador and Permanent Representative to the WTO between 2004 and 2010. Mr. Bhatia joined the Indian

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**Mr. Tatsuo Shikata** is a Visiting Researcher at KIIP. He worked for Mitsui & Co., Ltd. for four decades including its overseas offices in New York, Toulon and Singapore, and he finished the Executive Course of Keio Business School. Since 2015, Mr. Shikata has been working at Japanese think-tanks, namely Kajima Institute of International Peace, Japan Institute of International Affairs, and Japan Forum on International Relations. He is currently studying “Future of International Order based on Liberalism” and “Japan/India/EU Cooperation on Economic Security”.

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## *List of Abbreviations*

AAGC	Asia-Africa Growth Corridor
ACSA	Acquisition and Cross-Servicing Agreement
AEP	Act East Policy
AI	Artificial Intelligence
AIIB	Asian Infrastructure Investment Bank
ANI	Andaman Nicobar Islands
AOIP	ASEAN Outlook on the Indo-Pacific
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
AZEC	Asia Zero Emission Community
BBIN	Bangladesh, Bhutan, India, and Nepal
BDN	Blue Dot Network
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BJP	Bharatiya Janata Party
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, and South Africa
CBAM	Carbon Border Adjustment Mechanism
CCP	Chinese Communist Party
CECA	Comprehensive Economic Cooperation Agreement

CEP	Clean Energy Partnership
CEPA	Comprehensive Economic Partnership Agreement
CMEC	China-Myanmar Economic Corridor
CO	Certificate of Origin
COP26	26th Conference of the Parties
CPC	Communist Party of China
CPEC	China-Pakistan Economic Corridor
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DIPP	Department of Industrial Policy and Promotion
DPIIT	Department for Promotion of Industry and Internal Trade
EDB	Economic Development Board
EPA	Economic Partnership Agreement
EPQI	Expanded Partnership for Quality Infrastructure
ES	Enterprise Singapore
ESG	Environmental, social, and governance
EU	European Union
FDI	Foreign Direct Investment
FOIP	Free and Open Indo-Pacific
4IR	Fourth Industrial Revolution
FR IPL	Fujitsu Research of India Private Limited
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GoI	Government of India
IA	Infrastructure Asia
ICT	Information and communication technologies

IEA	International Energy Agency
IJDP	India-Japan Digital Partnership
IJIPP	India-Japan Investment Promotion Partnership
IMF	International Monetary Fund
IMTTH	India-Myanmar-Thailand Trilateral Highway
IOR	Indian Ocean Region
IORA	Indian Ocean Rim Association
IPEF	Indo-Pacific Economic Forum
IREA	International Renewable Energy Agency
ISA	International Solar Alliance
JASDF	Japanese Air Self-Defense Force
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organisation
JICA	Japan's International Cooperation Agency
JIMEX	Japan-India Maritime Exercise
JOGMEC	Japan Oil, Gas and Metals National Corporation
JSG	Joint Study Group
MeitY	Ministry of Electronics and Information Technology
METI	Ministry of Economy, Trade and Industry
MoC	Memorandum of Cooperation
MoU	Memorandum of Understanding
MSR	Maritime Silk Road
NATO	North Atlantic Treaty Organization
NDA	National Democratic Alliance
NSS	National Security Strategy
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OSA	Official Security Assistance



PLI	Production Linked Incentives
PRC	People's Republic of China
RCEP	Regional Comprehensive Economic Partnership
RSS	Rashtriya Swayamsewak Sangh
S&T	Science and technology
SAARC	South Asian Association for Regional Cooperation
SAGAR	Security and Growth for All in the Region
SCO	Shanghai Cooperation Organisation
SCRI	Supply Chain Resilience Initiative
SDF	Self-Defense Force
SDG	Sustainable Development Goals
SIDS	Small Island Developing States
SLOC	Sea lines of communication
SPS	Sanitary and PhytoSanitary
TICAD	Tokyo International Conference on African Development
TSMC	Taiwan Semiconductor Manufacturing Co.
U.S.	United States
UAE	United Arab Emirates
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
VUCA	Volatility, uncertainty, complexity, and ambiguity
WHO	World Health Organization
WTO	World Trade Organization

# *Executive Summary*

*Jagannath Panda and Tatsuo Shikata*

Over the past two decades, Japan and India have witnessed a transformative shift in bilateral ties that has seeped into their already officially established “Special Strategic and Global Partnership.” However, even as this growth remains unprecedented, the need for deepening their three-tiered partnership—bilateral, regional, and global—on multilateral concerns such as traditional and non-traditional security, defense, trade and investment, energy, technological innovation, and economy has never been more urgent, nor the scope so immense.

This publication reviews diverse aspects of the ever-growing India-Japan comprehensive partnership in four key areas—namely strategic essence; trade, investment, and economic security; energy and digital partnership; and Indo-Pacific connects—highlighting the opportunities and challenges, as well as providing implementable recommendations for going forward.

## **The Strategic Essence**

1. India-Japan relations date back to the Nehruvian era, when India’s first Prime Minister Jawaharlal Nehru made a positive impression on the Japanese people during his much-lauded 10-day visit to the country, including a stop at Hiroshima. Since then, the changes in India’s ideological orientation (particularly with Hindutva) have given Japanese scholars pause. However, as the first chapter argues, there are parallels to be drawn between Modi and Nehru; Modi brings with him a more robust approach to foreign affairs and has been instrumental in enhancing

India's outreach and exchanges with key middle and great power states, including Japan. While India-Japan contacts during the Nehruvian period were sporadic, they have assumed a new, much stronger character in recent years under Modi, and the momentum provided by the Modi-Abe camaraderie. The Modi administration has a unique style of foreign politics, involving qualities like preparation, directness, clarity of objectives, and country-specific messaging. Amidst a congruent assessment of Asian security, both countries have managed to establish themselves as anchors of the eastern and western ends of the Indo-Pacific region. While Japan holds an important position in Modi's modernizing mission, Modi has also highlighted India's advantageous parameters for Japanese investments and strategic connections. Yet, there are factors that have limited business relations between the partners, including (but not limited to the Japanese sense of exceptionalism and India's perception of Japanese firms being risk and competition-averse). Moving forward, the challenge for both countries is to capitalize on their synergy and accelerate growth momentum.

2. The key question then becomes: How can both countries overcome the differences in their values and interests to achieve greater strength and momentum between them? The second chapter addresses this issue by pointing out the need for India and Japan to work together in the Indo-Pacific amid the U.S.-China great power competition. The Russian invasion of Ukraine has tested the Indian-Japanese security chemistry, not to mention Asian security: India has been reluctant to criticize and impose sanctions on the Russian state while abstaining from the United Nations (UN) General Assembly resolutions critical of the Russian invasion and increasing its imports of Russian oil. In contrast, Japan has hardened its national security stance on Russia through economic sanctions and calling out Russia on its "illegal occupation" of the disputed Northern Territories. For Tokyo, this highlighted the disconnect between the values of both countries. Rather than preaching from the top, for both countries to move beyond these differences, they must look for avenues to act together as responsible actors.
3. Increasingly, the U.S. and China are heading toward confrontation, compounded by the Ukraine conflict wherein the U.S. stands with Ukraine while China is steadily strengthening its 'no-limits' partnership with Russia. China's belligerent rise during President Xi Jinping's continuing "for life" reign poses increasing

threats to both India and Japan as central players in the Indo-Pacific. Respective closeness (i.e., Japan as a treaty ally; India as a security partner) to the U.S. notwithstanding, Japan and India are working to balance China in the region without severing their vital economic dependence on China. At the same time, countering the threats to democracy and a Free and Open Indo-Pacific (FOIP) is fundamental to the India-Japan future-oriented relationship, underpinning their distinct yet complementary FOIP visions and cooperation. Undoubtedly, the India-Japan Partnership (IJP) is essential to ensure the continuation of the global pursuit toward a sustainable world order built on shared values.

### **Trade, Investment, and Economic Security**

4. Over time, the India-Japan partnership has grown and become stronger progressively. Despite bilateral trade reaching greater heights, the true potential remains unfulfilled. To enhance cooperation in economic security, both countries must work to secure a stable supply of critical goods by diversifying their supply chains, particularly those related to next-gen semiconductors and rare earth minerals. This in turn will help enhance cooperation in advanced technologies (like 5G, artificial intelligence, and quantum computing). At the same time, they must also build reliable infrastructure through Japan's ODA program, especially in third countries of the Global South.
5. For India and Japan, growing their economic relations is the logical progression of their already strong political synergy. The shared values of democracy, economic openness, and convergence on global challenges only provide a strong basis for further expansion of their partnership. To deepen the India-Japan economic partnership, Tokyo and Delhi must not only have a clear understanding of their changing global context but also the economic complementarities between them. This includes areas like technology and renewable energy. They must simultaneously expand their economic footprint in the region by engaging in more partnerships and networks, both within and outside the region (such as with Africa).
6. India and Japan have comprehensively overcome the period of limited relations during the post-World War II and the Cold War era. Although they have seen various ups and downs, in recent decades, India-Japan economic cooperation,

including in trade and investment, has steadily gained momentum. The India-Japan Comprehensive Economic Partnership Agreement (CEPA), signed in 2011, has been a pivotal tool for India-Japan trade. To take their economic relations further, re-opening negotiations on their bilateral free trade agreement must be a priority. This would include a review of existing policies on matters like the acceptance of Indian nurses and caregivers into Japan, revisiting the ‘rule of origin’ clause of the existing CEPA, and exchange of technology and training for India’s export sectors.

7. One key area where India-Japan economic relations lack momentum is the influx of foreign direct investment from Japan to India. Despite Japan being the fifth largest investor in the Indian economy, there is room for much greater growth in this domain. In fact, in 2020, China received five times more FDI inflow from Japan than India due to a variety of factors. In this context, the “Japan Plus” initiative has been a positive move to facilitate cross-sectoral Japanese investments. Efforts to stabilize trade and investment between India and Japan are also being made, particularly on infrastructure projects in India, increasing Indian exports to the Japanese market, and joint investment in emerging technologies. Nevertheless, political challenges, economic unpredictability, complex land acquisition rules, regulatory procedures, lack of technical skill of the labor force, and poor infrastructure facilities have continued to hinder FDI inflow from Japan to India. There is need for India to invest more on key areas to provide a more favorable business environment to Japan, as well as the need to grow cultural exchanges between the two countries to enable better investment relations.

## **Energy and Digital Partnerships**

8. Another significant avenue is the transition into a carbon-neutral economy. India aims to cut down its dependence on coal and adopt alternative forms of power generation to reach its target of net zero emissions by 2070. Japan has pledged to achieve carbon neutrality by 2050. In this regard, their intent to capitalize on the Indian subcontinent’s renewal energy potential by boosting cooperation on green hydrogen is significant. Notably, hydrogen is a valuable energy source that can replace current more environmentally damaging energy sources such as coal and could also be used to power electric vehicles.

9. All-round promotion of India-Japan energy cooperation is critical moving forward. Considering India's reliance on coal as the cheapest energy source and Japan's success with efficient coal-fired power generation via the ultra-supercritical pressure method, this can be a useful area for India-Japan renewable energy cooperation. Japanese technologies to reduce greenhouse gas emissions from coal-fired power generation have much to offer India. Due to the energy insecurity caused by the war in Ukraine and the subsequent sanctions on energy imports by European states, environmentally unfriendly processes like coal-fired power generation are making a comeback. In this context, India and Japan can help by collaborating with European states as well as Australia and Indonesia—the latter two have also released hydrogen strategies—on renewable energy alternatives like hydrogen for not just regional but global consumption. Working under the framework provided by the India-Japan Clean Energy Partnership, both countries can find a realistic approach to achieving their respective carbon neutrality targets.
10. Further, India and Japan can provide an invaluable alternative to the U.S.-China dominance in the digital technology sector. Continuing to strengthen this sector bilaterally and share the outcomes with the rest of the world and particularly the global South is essential. The India-Japan Digital Partnership (IJDP), launched in 2018, is the main conduit through which recent India-Japan joint digital projects have been implemented. This partnership has been successful in areas of science & technology (S&T), and sustainable development goals (SDGs). However, the partnership needs impetus in emerging technologies such as artificial intelligence (AI) and big data analysis. India and Japan are also making efforts to collaborate on defense technology though joint projects have been largely unsuccessful and slow. Therefore, this is one critical area in need of renewed impetus.

### **Forging Forward the Indo-Pacific Connect**

11. To address global challenges and maximize the benefits of the India-Japan Partnership, the two states are poised to significantly expand their bilateral cooperation into the regional and global arenas. They have already embarked on a constructive engagement in Africa via the Asia-Africa Growth Corridor (AAGC) and the “Platform for Japan-India Business Cooperation in Asia-Africa Region”

based on their FOIP visions. However, this has been slow going, even non-moving in some areas. Europe, the Indian Ocean Region (IOR, particularly the Bay of Bengal), Central Asia, South and Southeast Asia could be other emerging areas of interest. Such multi-directional engagement is also in line with their shared vision on multipolarity in the Indo-Pacific.

One major reason for this push is China's rising influence through the Belt and Road Initiative (BRI). Under the BRI, China has established numerous economic projects with South and Southeast Asian states, such as Cambodia, Myanmar, Nepal, Bangladesh and Pakistan, resulting in increased Chinese control of the region. As a result, India and Japan are working toward coordinating initiatives to jointly counter China's rising global influence. The expansion of Japan's interest in India's Northeast into the Bay of Bengal—an area of great strategic interest to major powers—would be an outcome of such thinking. For example, the India-led Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) as a collaborative forum on climate and maritime security is of particular strategic value.

12. An India-Japan 'plus' framework is vital for both the productivity and stability of the Indo-Pacific region. Despite their high degree of convergence, closer scrutiny shows that India-Japan relations are bedeviled and inhibited by several issues. To become fulcrums of the Indo-Pacific strategic order, India and Japan must now ensure that their Special Strategic and Global Partnership is not only a conversational and ideated forum, but one of productivity. This includes jointly leading Indo-Pacific minilaterals and plurilateral to foster sustainable development of the region. India and Japan can scale up their cooperation by enhancing their engagement in outcome-oriented minilateral arrangements like "Triangular Development Cooperation". Such platforms for dialogue between larger powers such as India and Japan along with developing countries, such as the Small Island Developing States (SIDS), will accelerate the resolution of developmental challenges. They would also strengthen India's and Japan's complementary goals toward an inclusive and free Indo-Pacific while also facilitating solidarity for the FOIP among these developing states.

The difficult geopolitical situation on the global stage—with the Ukraine war and tensions over the Taiwan Strait—are poised to have a ripple effect on other regional

disputes. This has ensured that strong common ground between India and Japan remains on Indo-Pacific security strategy, despite changes in Japanese leadership and Japan's turn away from historical pacifism or the growing global demand for India to act as a mature democracy to address pressing global concerns. Hence, in the face of today's strident challenges, India and Japan value each other as indispensable partners, limitations notwithstanding.

## **Notable Policy Recommendations**

### *Strategic Coordination*

India and Japan should have regular multi-layered meetings at various public and private sector level. They must also strengthen and further the channels of multi-track diplomacy to gather information and generate awareness to counter the disruptive efforts of China to alter the region's status quo. In the coming months particularly, as respective chairs of the G20 and G7 groupings, India and Japan have an opportunity to closely align their agendas and facilitate ideas and initiatives between the two vital global economic bodies. At a time when the world is grappling with increasingly divisive agendas and value systems, such coordination could help address the seemingly insurmountable challenges that the Indo-Pacific, and indeed the international community, face.

Even as the goodwill and motivation to continue pursuing defense technology-oriented cooperative projects on both sides is reassuring, the constraints on the transfer of such technologies should be identified and addressed.

### *Supply Chain and Infrastructure Investments*

A re-examination of the current CEPA trade deal between India and Japan must be undertaken with the support of the Joint Study Group in order to resolve mutual trade concerns. In particular, the "rule of origin" clause in CEPA must be eased. Japan must make concrete efforts to ease the conditions for the entry of the Indian workforce into the country and Japanese industry. The demographical differences—Japan's aging and declining population versus India's rapidly growing young population—should be capitalized on to remedy Japanese workforce problems.



To make the Indian trade sector more appealing for Japanese investment, India must improve transparency, anti-corruption measures, and the overall environment and conditions for Japanese businesses. An initiative such as “Make in India” is a step in the right direction.

India and Japan should harness their stakes in the Supply Chain Resilience Initiative (SCRI; co-founded with Australia) to create avenues for supply chain cooperation on areas such as semiconductors and other advanced technology sectors. The SCRI offers a unique opportunity to showcase BIMSTEC and help Indo-Pacific partners move away from Chinese supply chain dominance. The U.S.-Japan-Australia led Blue Dot Network (BDN) and the U.S.-led Indo-Pacific Economic Framework (IPEF) can also be effectively mobilized to ensure investment in quality and sustainable infrastructure and counter supply chain vulnerabilities respectively.

Japan should also provide advanced technology support to India and other Indo-Pacific partners on the development of green hydrogen. For example, Japanese technological support could provide expertise for the transportation and storage of hydrogen. Cooperation in such areas could in future help reduce the cost of green hydrogen as an energy alternative. In this vein, India and the Western states, which are reverting to coal-fired power generation, stand to gain much from Japanese coal-fired power generation technology. The Japanese government’s “Strategic Energy Plan” facilitates the introduction of high-efficiency power generation equipment that is “at or above ultra-supercritical pressure,” for a partner state compelled to choose coal as an energy source.

Importantly, the currently underperforming India-Japan economic collaboration can be developed further by exploiting Japanese capital power/technologies and India’s large market/its increasing appetite for investment in new technologies. Key sectors to focus on would be semiconductors and other advanced components, renewable and clean energy, pharmaceuticals, and rare minerals.

### *Third Country Cooperation*

India and Japanese convergence is often limited within multilaterals such as the Quadrilateral Security Dialogue (Quad, comprising Australia, India, Japan, and the U.S.) and responses to international crises such as the Russian invasion of Ukraine.

However, the two states should expand regional and global avenues for greater outreach to concretize their FOIP solidarity.

Cooperation with third states, like ASEAN (particularly Singapore owing to its position as a financial hub located at the strategic choke point of the Strait of Malacca) and the Bay of Bengal littorals, must be an important part of the agenda for the India-Japan partnership. To increase the regional connect, India and Japan should collaborate in the Bay of Bengal through third parties/countries such as BIMSTEC, ASEAN, Sri Lanka, Bangladesh, and Vietnam.

India could also benefit from increased Japanese support for bigger roles in international bodies. Together they should continue to look for ways to reform and strengthen multilateral institutions like the UN and the World Trade Organization (WTO).



## *Introduction*

### *India-Japan: A Forward-Looking Partnership in an Era of Strategic Instability*

*Jagannath Panda and Tatsuo Shikata*

#### **Standing up to the China Challenge Together**

China's no longer "peaceful" but militant rise during President Xi Jinping's terms in power since 2012 has caused immense instability in the Indo-Pacific and for regional powers like Japan and India. His massive flagship infrastructure project launched in 2013, the Belt and Road Initiative (BRI), together with the Asian Infrastructure Investment Bank (AIIB, launched soon after in 2015-16) aimed to give significant momentum to China's growing economic and political clout, especially in economically poor, but resource-rich countries of the Global South. Importantly, China holds the majority veto power based on its 26.6 percent voting rights (India is next with 7.6 percent vote share) and 30 percent stake in the more than 100-member AIIB that is capitalized at US\$100 billion.<sup>1</sup>

India objects to the BRI projects mainly because of the US\$65 billion China-Pakistan Economic Corridor (CPEC) that runs through contested territory, apart from viewing the BRI as a unilateral, corrupt foreign policy tool, which has engulfed many countries in South Asia and Southeast Asia into unsustainable debt traps. Current examples include Sri Lanka and Bangladesh. Japan, which was initially ambivalent to the BRI, is increasingly seeing it via a suspicious lens.<sup>2</sup> Critics of the BRI have accused China of being a major driver of debt increase in low-income countries in Asia and

Africa in the past decade, and being unwilling to restructure debt relief norms.<sup>3</sup> Japan and India as Indo-Pacific “Special Strategic Global Partners” must visualize a constructive plan on how to balance out and counter China’s BRI game plan.

Notably, President Xi’s China dream, which includes rejuvenation and reunification as core objectives, has been given a new lease with his re-coronation at the 20<sup>th</sup> National Congress of the Communist Party of China (CPC) despite the post-COVID-19 domestic and geopolitical challenges that have greatly weakened the Chinese economy.<sup>4</sup> This in turn has impacted the regional and global security/economic landscape.

In 2020, China was the only major economy with a positive annual gross domestic product growth rate of 2.3 percent.<sup>5</sup> However, the economy is slowing down especially due to China’s strict zero-COVID strategy and a weakening global demand: As per reports, the country’s economy grew by only 3 percent in 2022 in spite of its intended target of 5.5 percent, and the growth rate is expected to range between 2 and 5 percent in the near future.<sup>6</sup> China’s just-outgoing previous Premier Li Keqiang, too, set the lowest-ever GDP growth target in decades at “around 5 percent” for 2023, highlighting that the era of stupendous growth may have passed.<sup>7</sup>

Other major problems include surges in debt (280 percent of GDP in 2020 plus the high-risk “shadow banking”), sluggish real-estate markets, financial difficulties of local governments, rising unemployment rates (particularly for the youth at about 20 percent in July 2022), the crackdown on technology industries, and ageing population accompanied by a shrinking work force.<sup>8</sup> Geopolitically, China’s weak economy could lead to solidifying the military means (e.g. by enhancing “Han Nationalism” and renewing reunification efforts vis-à-vis Taiwan) in order to maintain the CPC’s “legitimacy” at home.

China’s military aggression is backed by both soft (e.g., mask and vaccine diplomacy) and reactionary (e.g., wolf-warrior diplomacy) tactics. China has carried out “mask/vaccine diplomacy” through its Health Silk Road in Asia (particularly in Southeast Asia) and disadvantaged parts of Europe (e.g., Central and Eastern Europe) to enhance Beijing’s influence by exploiting governance gaps and propagating an anti-Western agenda.<sup>9</sup> For example, vaccine diplomacy in Southeast Asian countries could enable China to strengthen its leadership vis-à-vis the resurgent U.S., and

could also help China in maintaining a lead on the Code of Conduct negotiations in the South China Sea. Thus, enhanced security efforts by both India and Japan, in concert with other partners like Australia, the U.S. and the European states, to prevent regional instability have assumed urgency.

It is important to note here that China is an extremely important trade partner for both India and Japan. In 2021, Japan's exports to and imports from China totaled US\$206 billion and US\$185 billion, respectively.<sup>10</sup> In comparison, India's exports and imports totaled US\$23 billion and US\$88 billion, with China continuing to be one of its top trading partners.<sup>11</sup>

At the same time, the COVID-19 pandemic has highlighted the risks of economic overdependence on China, particularly on the supply of essential products such as medical equipment, raw materials, and critical minerals. Thus, newly established initiatives such as the India-Japan-Australia Supply Chain Resilience Initiative (SCRI) and/or the India-Japan Asia-Africa Growth Corridor (AAGC), which is still not moving forward despite being announced in 2017 to develop and connect ports from Myanmar to East Africa, need to be reinvigorated.

## **Forward-Looking India-Japan Partnership**

### ***Security***

The relationship between India and Japan has come a long way since 2007 when the then Prime Minister Shinzo Abe delivered the “Confluence of the Two Seas” speech in the Indian Parliament articulating the idea of the Indo-Pacific and a “broader Asia,” providing momentum for democracies in the region to “deepen” their strategic bonhomie and a “new chapter” for India-Japan ties.<sup>12</sup> Fortunately, Prime Minister Kishida has thus far managed to positively steer Prime Minister Abe's legacy with respect to India: The year 2022 completed 70 years of diplomatic ties and witnessed strong economic, strategic, and security bilateral and regional engagements, especially via high-level meetings in March, May, and September.<sup>13</sup>

No doubt, the political differences on the Russia-Ukraine war have presented as a hindrance in terms of global democratic solidarity, but as evidenced by intensive high-level meetings between Indian and Japanese officials at multiple formats, there

is no letup in bilateral efforts toward Indo-Pacific prosperity and stability. For example, in 2022, the Quad leaders during their meeting in Tokyo agreed to extend more than US\$50 billion for infrastructure investment in the Indo-Pacific over the next five years.<sup>14</sup>

At the bilateral level, the 2+2 talks between the Indian and Japanese foreign and defense ministers in September 2022 are proof that strategic instability is drawing the two sides closer than ever. Enhancing their relations within the security sphere is intended as a geopolitical move to downplay China's global influence as well as address anxieties over the tense crises and provocative measures in Taiwan, Ukraine, and North Korea. Foreign Minister Hayashi has expressed the need for India and Japan to step up security cooperation to address the instability in the Indo-Pacific.<sup>15</sup> India is strategically critical to Japan as it controls important sea lines of communication (SLOCs) that could be under threat, and Japan is important to India's Act East Policy and Indo-Pacific Outlook.<sup>16</sup>

India and Japan have engaged in bilateral military exercises for many years, notably with the annual "Dharam Guardian" exercise for counter-terrorism operations since 2018. As part of the 2+2 agreement in September 2022, more frequent joint military exercises will bolster the security deterrence in the Indo-Pacific, which is already taking shape with the first-ever Indian Airforce and Japanese Air Self-Defense Force (JASDF) fighter aircraft drill in March 2023.<sup>17</sup> The exercises are aimed at interoperability, capacity building, and stronger defensive power to counter China's continuing militarization.

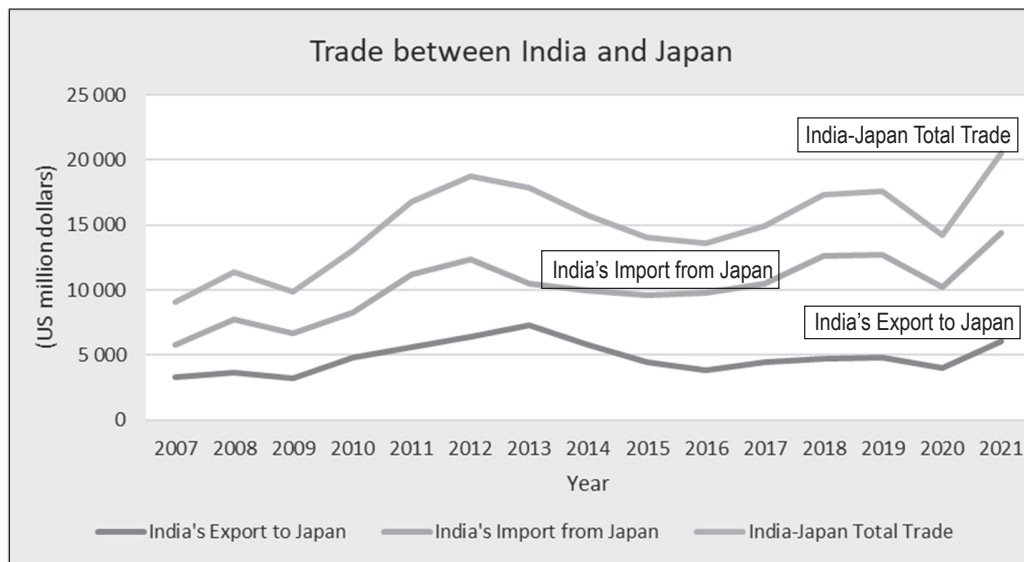
Japan's pacifism is gradually changing as a response to Chinese aggression, and Prime Minister Kishida is making moves to increase the defense budget to better prepare the country to face growing threats.<sup>18</sup> Moreover, the new National Security Strategy of Japan highlights enhancing security cooperation with like-minded partners; accordingly, collaboration with India is expected to steadily deepen—although not to the point of a formal alliance with mutual defense obligations.<sup>19</sup> Given that India feels the threat of China on its shared border and in the Indian Ocean to an alarming degree, India and Japan are well-positioned to capitalize on their shared perception of China as a destabilizing threat.

## Trade and Investment

Moving to trade prospects, Japan and India have had a robust economic partnership for a long time. India and Japan signed the Comprehensive Economic Partnership Agreement (CEPA) in 2011, but the total trade and investment have been fluctuating. As a result, the Indian government is talking about reviewing the CEPA primarily because of the slow trade growth and to increase market access for Indian goods in Japan.<sup>20</sup>

Figures 1, 2, and 3 illustrate the flux: The total trade hit a record high in 2012 at US\$19 billion but fell to US\$14 billion in 2020 (see Figure 1). The direct investment from Japan to India hit a record high of US\$5,781 million in 2016, but decreased to US\$1,445 million in 2020 (see Figure 2). Figure 3 shows industry-wise direct investment from Japan to India during 2000-2020.

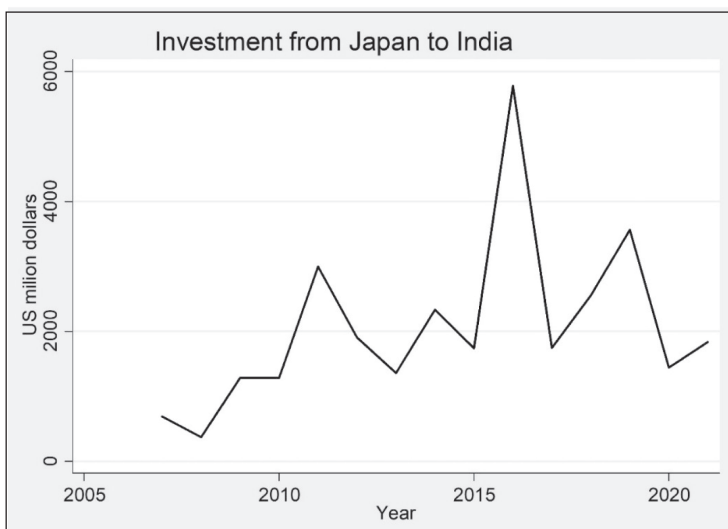
Figure 1: India-Japan Trade



Source: UN Comtrade database and SIA Newsletters, Department for Promotion of Industry and Internal Trade

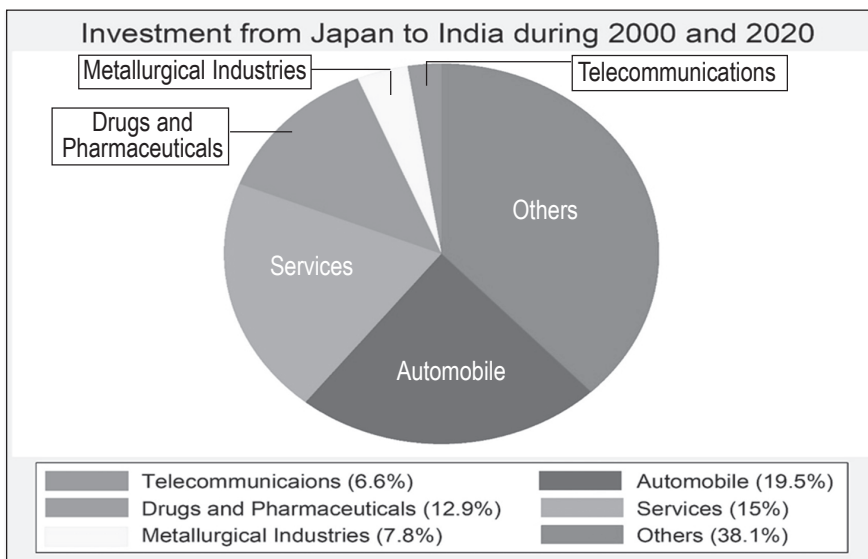


Figure 2: India-Japan Investment



Source: UN Comtrade database and SIA Newsletters, Department for Promotion of Industry and Internal Trade.

Figure 3: Industry-wise Investment from Japan to India (2000-2020)



Source: FDI Synopsis on Country: Japan, as of December 31, 2020.

India has also been the largest recipient of Japanese ODA loans for the last few decades: About ¥ 312.25 billion (2021) in loans, ¥ 4.67 billion (2021) in grants, and ¥ 8.5 billion (2021) in technical cooperation.<sup>21</sup> As a trusted partner, Japan has been permitted to develop India's Northeast, the only country that has been allowed to do so in a substantial way.<sup>22</sup> Other high-profile Japanese economic development initiatives within India include the Ahmedabad High-Speed Railway and projects in the Andaman Nicobar Islands close to the strategically important Malacca Strait.<sup>23</sup>

Moreover, Prime Minister Modi and Prime Minister Kishida agreed in March 2022 on a target of ¥5 trillion for public and private investment or financing from Japan to India over the next five years.<sup>24</sup> Foreign investment remains crucial for India's economic growth. Japan has certainly been a factor in India's economic rise—now the fifth largest economy in the world; and they both can play a significant role in promoting economic development in the region and supporting the “Global South” narrative that would strengthen a multi-polar world order.

Furthermore, with critical and emerging technologies becoming a crucial part of national security strategies (including building both military and economic deterrence against critical vulnerabilities), New Delhi and Tokyo, too, have been intent on creating avenues for concrete cooperation in new technologies.<sup>25</sup> The sectors of potential investment would include automobiles, data processing, renewable energy, clean energy, cybersecurity, and digital infrastructure.<sup>26</sup> India's skilled workforce and Japan's advances in technology provide great opportunities for collaboration.

Notably, the launch of the India-Japan Clean Energy Partnership last year will contribute toward achieving sustainable development goals including climate action and energy security via collaboration on electric vehicles, battery-operated storage systems, solar energy, dialogue on energy transition, waste-water management, and other such areas.<sup>27</sup> This is an area where cooperation with European states is a viable option, such as Japan's membership in the Indian-Swedish UN climate initiative, Leadership for Industry Transition (LeadIT), to promote “an industrial renaissance.”<sup>28</sup> The Quad's working groups such as on critical and energy technology and climate change adaptation and mitigation are also important avenues of cooperation.

Another key area of convergence that cannot be understated is the development of resilient supply chains. Post the COVID pandemic and now with the Ukraine war, the disruptions in supply chains and overdependence on states like China have clearly highlighted the rise in economic coercion tactics and weaponization of need and resources. In the Indo-Pacific, the economic dependence on China has been a major concern among most middle powers like the states of the Association of Southeast Asian Nations (ASEAN), India, South Korea, and Japan. And partly to mitigate such concerns, Australia, Japan, and India officially formed the SCRI in 2021. But for the SCRI to be effective, the founding states need to overcome “structural limitations”<sup>29</sup> and expand it to like-minded countries in the Indo-Pacific.

While decoupling from China has been debated ad nauseam, the feasible options forward include diversification and de-risking of supply chains—with decoupling remaining a fantastical notion. In this regard, the India-Japan Industrial Competitiveness Partnership that promotes business linkages will be of considerable value.<sup>30</sup> Japan’s investment in the “Program for the Supply Chain Resilience in the Indo-Pacific Region” on multiple Indian projects (approx. US\$8.6 million budget) to be implemented this year is another concrete step.<sup>31</sup>

Importantly, with India’s economic rise, New Delhi is becoming more essential to the G7, and vice versa. Thus, Japan could help in integrating cooperation between them. Tokyo invited the Indian and Indonesian leaders as current chairs of G20 and ASEAN, respectively, to the G7 Summit in May 2023.<sup>32</sup> Both India and Japan want to push back China’s influence through the BRI-promoted infrastructure development in Asia and the wider Global South, so building better engagement between the G20 and G7 could facilitate ways to reduce China’s “penetration” into the developing world.<sup>33</sup>

At the same time, India and Japan must reconfigure their growing economic, defense, and technology ties within the regional development context by collaborating through diverse (non-US-led) Asian groupings like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and fostering cooperation with other middle powers like Australia to provide momentum to inclusive multipolarity in the long term.<sup>34</sup>

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# I. THE STRATEGIC ESSENCE





# 1

## *Nehruvianism, Hindutva, and Indian Foreign Policy: A Case Study of India-Japan Relations*

*Jayant Prasad*

As India's first Prime Minister and External Affairs Minister Jawaharlal Nehru<sup>1</sup> became the voice of India in world affairs.<sup>2</sup> Nehru's non-aligned policy was closely identified with Nehruvianism. Nehru felt this policy was in line with India's quest for sovereignty and self-rule after 200 years of British domination and was inherent in the circumstances of India and the world at that time.<sup>3</sup> There were three essential motivations for India's non-aligned policy:

- India wished for freedom of action, now generally described as strategic autonomy.
- Nehru believed that non-alignment and keeping away from the power politics of groups aligned against one another would enable India to play a part in maintaining world peace and mediating in a bipolar world.<sup>4</sup>
- Non-alignment was consonant with solidarity among colonized peoples seeking independence.<sup>5</sup>

Nehruvianism reflected Nehru's overall peaceful outlook, including an over-reliance on diplomacy together with relative neglect of military preparedness and his belief in

an Asian identity (predicated on Sino-Indian solidarity), which he considered an essential condition for world peace. Nehru transposed Mahatma Gandhi's idealism and moral principles—instruments used in the national movement—to the international arena.<sup>6</sup>

Nehru believed that an India-China entente would secure peace and stability in Asia and beyond, and that Asian solidarity, propelled by India and China together, would be the vehicle for doing so. Asian fellowship and renaissance became abiding themes of Nehru's foreign policy pronouncements. Although not a naive pacifist, Nehru had a deep dislike of war. His dedication to peace-making came from an aversion to violent confrontation, just as his socialism originated in an aesthetic aversion to poverty and not a doctrinal understanding of socialist tenets. Even after the war with Pakistan in 1947-48, he decried militarism and cautioned that a war would bring disaster in its wake.<sup>7</sup> This resulted in the neglect of India's defense, which led to India's military setback with China in 1962.<sup>8</sup>

While post-War Japan and independent India were democracies and never developed differences or mutual hostility, their early relationship was devoid of any ballast. In Nehru's global outlook, Japan did not occupy a prominent place, though his attitude toward Japan was friendly and warm. In response to a request signed by Tokyo school children in 1949, Jawaharlal Nehru sent an elephant to Japan, named after his daughter, with an uplifting message that children are free from the prejudices of grown-ups. Kyodo noted that Nehru made a fine impression on the Japanese people during his 10-day visit to Japan, which included a visit to Hiroshima.

When 48 countries in San Francisco signed the Treaty of Peace with Japan in September 1951, India was not among them. An Indian objection to the Treaty was the stationing of foreign forces on Japanese soil. India's leading newspaper at the time, *The Times of India*, criticized this attitude. It argued that the United States was only doing what the Japanese government wanted it to do, of which it was the best judge and there was little reason for India to refuse to participate in the signing of this Treaty.<sup>9</sup>

India soon signed a separate treaty with Japan renouncing reparations. The Japanese reaction to India's non-participation in the San Francisco Treaty was one of understanding. In his compact book, *A Brief Diplomatic History of Japan*, Morinosuke

Kajima, the eminent diplomat in whose name the Kajima Institute stands, wrote: “India’s non-participation in the San Francisco Conference was motivated by friendly sentiments—on the ground that the treaty did not recognize Japan’s position as honourable and equal.”<sup>10</sup> This was in the same spirit as Justice Radhabinod Pal’s dissenting judgment at the Tokyo War Trials.

There was a fundamental change in the foreign policy articulation of the Bharatiya Janata Party (BJP)-led government under Prime Minister Narendra Modi<sup>11</sup> compared to the preceding governments in India since he assumed office in 2014.<sup>12</sup> This is largely guided by the BJP’s commitment to Hindutva, the propagation of which has been one of the prime objectives of BJP’s parent organization, the Rashtriya Swayamsewak Sangh (RSS). Hindutva is distinct from Hinduism, which is more of a way of life than a prescriptive religion.

Hindutva is a political ideology that seeks to define Indian nationhood in terms of Hindu culture and values. One of its prime votaries, V.D. Savarkar, wrote that Hindutva connotes a common nation (Rashtra), a common race (Jati), and a common civilization (Sanskriti). For him, a Hindu is one for whom the Indian subcontinent is the Fatherland, “the land of his patriarchs and forefathers.”<sup>13</sup> This definition excludes non-Hindus from the definition of Indianness. The RSS’s long-standing objective is the creation of a ‘Hindu Rashtra’ (Hindu State). In a meeting in Nagpur on August 14, 2022, its current chief, Mohan Bhagwat, affirmed the attainment of Akhand Bharat (unified Indian subcontinent) as the organization’s vision for the next twenty-five years.<sup>14</sup> Akhand Bharat seeks to unify all of the lands of the Indian subcontinent.

This change in the ideological orientation of the ruling political party has caused some misgivings, including among some Japanese scholars. In 2019, after Modi won a second term as Prime Minister, Nakazimo Kazuya wrote that India finds itself at “the frontline of a widening global democratic crisis,” and warned that Japan should not turn a blind eye “to the danger of Modi’s supremacist Hindu project.”<sup>15</sup> Another scholar, Kira Hujū, wrote about efforts to saffronize Indian diplomacy.<sup>16</sup>

While Hindutva largely concerns domestic politics and has some impact on India’s neighborhood, it does not affect India’s relations with the major powers, including Japan, except in terms of how India is perceived in the eyes of some members of their informed public. In his interaction with foreign leaders, Modi has not alluded to any

proclivity to Hindutva. However, a non-secular and non-inclusive domestic agenda around Hindutva tends to cause embarrassment to the Government of India (GoI). Modi quickly moved to do damage control after the international criticism of derogatory references made about the Prophet Muhammad by BJP spokespersons in June 2022. One was suspended from the party and the other was expelled.<sup>17</sup>

At first glance, Nehru and Modi seem very different. Their social backgrounds diverge—one the scion of an affluent, aristocratic family, the other starting life as a tea vendor: one having gone to study at Harrow and Cambridge, the other largely self-educated. One fought for freedom under the tutelage of Gandhi and having spent 16 years in British prisons, became Gandhi's anointed political heir, the other served the RSS and rose through its ranks and that of the BJP gradually. Here, the divergence ends. Nehru was a strong leader, with an assertive, dominant personality. So is Modi. This common trait applies to their conduct of India's external relations.

In Indian foreign policy, there is more continuity than change. In recent years, successive governments formed by the National Democratic Alliance (formed in 1998 under the chairmanship of Atal Bihari Vajpayee) and United Progressive Alliance (formed in 2004 under the chairpersonship of Sonia Gandhi), with Vajpayee, Manmohan Singh, and Modi as Prime Ministers, had the same broad foreign policy objective, of creating a conducive international environment for India's ongoing transformation, grounded on the principles of strategic autonomy and engagement with major powers.

The difference is that Modi has imparted a more robust approach to foreign affairs than his predecessors. The frequency and focus of India's interactions with medium and great powers, including Japan, has increased with frequent exchanges at the highest political level. During the 17 years of Nehru's premiership, India-Japan contacts at the political level were sporadic and scanty relative to India's interactions with China, the United States, the United Kingdom, the former Soviet Union, and some of the Southeast Asian countries. Since being elected Prime Minister in 2014, Modi has visited Japan six times. Modi and Shinzo Abe<sup>18</sup> met 15 times as Prime Ministers, bilaterally and on the margins of plurilateral meetings. Furthermore, these high-level exchanges were handled differently—more as a political campaign than as a routine visit marked by incremental progress. Visits, both incoming and outgoing, are carefully choreographed. Modi brings to his diplomatic style the same qualities

that have helped him scale the ladder of domestic politics: preparation, directness, clarity about objectives, and country-specific discrete messaging.

When Modi became Prime Minister in 2014, India-Japan relations were already in a better place than at any time since India's independence. Following a brief chill in India-Japan relations after India tested nuclear weapons in 1998, Prime Minister Yoshiro Mori's visit to New Delhi in August 2000 marked a breakthrough in bilateral ties. Mori and Prime Minister Atal Bihari Vajpayee established a 'Global Partnership between Japan and India.' Thereafter, Prime Minister Manmohan Singh assiduously pursued improved India-Japan ties. Japan-India relations were elevated to a 'Global and Strategic Partnership.' Abe and Modi announced in 2014, the upgradation of the India-Japan relationship to a 'Special Strategic Global Partnership.' During Abe's visit to India in December 2015, the India-Japan Strategic and Global Partnership was raised to what the leaders of the two countries described as the "Japan and India Vision 2025 Special Strategic and Global Partnership: Working Together for Peace and Prosperity of the Indo-Pacific Region and the World."

Abe decisively turned the direction of India-Japan strategic cooperation. He believed that it would be useful for India to be part of the Australia-Japan-United States strategic combine in the Indo-Pacific region. During his visit to New Delhi in 2007, he won the approbation of India's parliamentarians when he spoke of "the Confluence of the Two Seas" (the Pacific and Indian Oceans).<sup>19</sup> Simultaneously, he pushed for the formation of the Quadrilateral Security Dialogue (the Quad)—composed of the United States, Japan, India, and Australia. The Quad initiative stalled at the time because of Australian and Indian reticence about annoying China. Even if somewhat premature in its timing, Abe was prescient about the need for the quadrilateral combine, which he described as "Asia's Democratic Security Diamond."<sup>20</sup> The idea was revived in 2017 and practical cooperation among the Quad countries has since gained strength.

Geographically, India and Japan are the ideal anchors of the eastern and western ends of the Indo-Pacific region. The two countries have a congruent assessment of Asian security. Their leaders are committed to strengthening defense capabilities and deepening strategic ties. There is alignment between India's Act East Policy (AEP), unveiled in Nay Pyi Taw at the 12th India-ASEAN Summit on November 12, 2014,

and Japan's Free and Open Indo-Pacific (FOIP). It was in 2015 that Japan fully articulated the idea of a FOIP. The India-Japan statement of December 2015 mentioned the term Indo-Pacific region eight times. The FOIP envisaged:

- upholding the principles of sovereignty and territorial integrity;
- peaceful settlement of disputes;
- democracy, human rights and the rule of law;
- an open global trade regime; and,
- freedom of navigation and overflight.

As part of his modernizing mission, Modi has doubled down on some of the pre-existing India-Japan projects, such as the Delhi-Mumbai Industrial Corridor and the Western Dedicated Rail Freight Corridor between Dadri (Uttar Pradesh) and the Jawaharlal Nehru Port Trust, Navi Mumbai. The Japanese-funded Delhi Metro is being expanded and the metro projects have been initiated in several other Indian cities. Modi's new initiatives include meeting with representatives of the India-Japan Business Leaders Forum, co-launching a \$12 billion India-Japan Make-in-India Special Finance Facility, sending industrial interns and trainees to Japan under the rubric of the 'Japan-India Skill Connect', constructing India's first bullet train from Ahmedabad to Mumbai, etc.

In 2014, India and Japan committed to upgrading their economic ties. The actual Japanese investment in India between the financial years 2014-19 was \$13.99 billion against a target of \$35 billion. Between April 2000 and March 2022, Japan cumulatively invested \$36.94 billion in India.<sup>21</sup>

Besides investment, Japan is now the largest bilateral aid provider to India—noteworthy when Japanese overseas assistance has been contracting over the last decade. Suzuki and Daikin are two good examples of Japanese investments in India. The favorite Japanese investment destinations in India are Haryana, Tamil Nadu, and Gujarat. A new interest is India's northeast, especially Nagaland and Manipur. India has the right parameters to encourage an increase in Japanese investments in capital and technology:

- India's resilience during the COVID pandemic and post-COVID recovery;

- its projection as possibly the fastest-growing large economy in the next few years;
- its strong fundamentals, including self-sufficiency in food; and,
- the industry and investment-friendly policies pursued by the Modi government.

Some of the Japanese worries are being actively addressed, such as restrictions on foreign equity ratio, constraints on the repatriation of profits or royalties, delays in visa-issuance, and problems relating to infrastructure such as electricity and water supply or transportation linkages—the last mentioned is a work in progress. Still, Japanese firms have been slow to invest in India for a variety of reasons. Firstly, Japan's primary interest is in China, South Korea, and the ASEAN countries. Japan's geostrategic concern is with its periphery followed by the United States.<sup>22</sup> Until the end of the twentieth century, Japan did not conceive of Asia beyond the Asia-Pacific, which stopped at Thailand or Myanmar.

The second reason is what can be described as Japanese exceptionalism—the expectation that like Singapore, Vietnam, or Indonesia, India would bend its rules to give Japanese investors whatever they want. This cannot be so in India, where the courts and public opinion go by the adage of equality of treatment. Within these constraints, Indian agencies and government departments are committed to doing more for Japanese investors than for others.

Finally, the Indian business community's perception is that Japanese firms are risk-averse and fear failure more than competitors from other Asian countries or even Indian entrepreneurs. These factors have come in the way of Japanese firms taking advantage of the packages offered by the Japanese government to move their businesses out of China. Few Japanese firms have come to India, with a couple of notable exceptions. The absence of single-window clearance, lack of labor-laws flexibility, a difficult business environment, until recently the absence of a unified Indian market, cultural differences and unfamiliarity, and the relative timidity of the Japanese investor have slowed the move toward an upgraded economic relationship.

Prime Minister Kishida Fumio has visited India twice, the most recent time in March 2023. Kishida and Modi have set a higher future trajectory for India-Japan relations. During his most recent visit, Kishida described India as Japan's indispensable



partner for Japan's FOIP strategy.<sup>23</sup> They agreed to target \$42 billion (Yen 5 trillion) of public and private financing from Japan to India between 2022 and 2027 and to together develop reliable, resilient, and efficient supply chains in the region. The Japanese will need to devise imaginative interventions, for instance, by offering to invest in frontier technologies—India is looking to leapfrog and catch up with China—while India must further improve its delivery mechanisms. The direction of India-Japan relations is positive. The challenge is to accelerate the growth momentum and develop a habit of cooperation.

#### NOTES

- 1 Hereinafter, Nehru. He was in office from August 1947 until May 1964.
- 2 The Indian diplomat, Subimal Dutt, who worked closely with Nehru, described him as “the sole architect of the foreign policy of independent India.” Subimal Dutt, *With Nehru in the Foreign Office* (Calcutta, 1977), 23. See also Bimal Prasad, *The Origins of Indian Foreign Policy: The Indian National Congress and World Affairs, 1885-1947* (Calcutta, 1962). Prasad explains how, by the time India gained independence, the Indian National Congress, at the vanguard of the freedom struggle, had developed a definite outlook on world affairs, having Nehru's strong *imprimatur*.
- 3 Jawaharlal Nehru, *India's Foreign Policy: Selected Speeches, September 1946 – April 1961* (New Delhi, 1961), 80 & 83.
- 4 Jawaharlal Nehru, *op. cit.*, 36.
- 5 *Ibid.*, 2 & 39-40.
- 6 See Antonio Gramsci, *Prison Notebooks Volume I* (New York, 2011), 219. Gramsci noted that the Gandhian strategy comprised “the war of position and the war of movement.”
- 7 Jawaharlal Nehru, *op. cit.*, 183.
- 8 Some other Indian leaders, without being war-mongers, appreciated the necessity of force. “It is no use talking about an independent foreign policy,” said the Chairperson of the Drafting Committee of India's Constituent Assembly, B.R. Ambedkar, “without striking power.” Remarks to the press in Mumbai, November 24, 1951, *B.R. Ambedkar: Writings and Speeches*, Vol. 17, Part II, (Ministry of Social Justice & Empowerment, Government of India, 2019), 383, [https://doj.gov.in/sites/default/files/Volume\\_17\\_02.pdf](https://doj.gov.in/sites/default/files/Volume_17_02.pdf) (accessed December 26, 2020).
- 9 “The Japanese Peace Treaty: ‘An Unwise Show of Independence’,” *The Times of India*, August 29, 1951. “Instead of poking our noses into other people's affairs,” said B.R. Ambedkar to journalists, Indians needed to “build our collapsing economy.” B.R. Ambedkar, *op. cit.*, 383.
- 10 Morinosuke Kajima, *A Brief Diplomatic History of Modern Japan* (Tokyo, 1965), 88.
- 11 Hereinafter Modi.
- 12 Before assuming the office of Prime Minister, Modi said that his “Hindutva face will be an asset in foreign affairs.” In that same interview, he went on to affirm that he would “follow the policies of

- the Vajpayee-led NDA [National Democratic Alliance] government.” Interview with the Editor of *Loksatta*, Girish Kuber, April 23, 2014, <https://indianexpress.com/article/political-pulse/my-hindutva-face-will-be-an-asset-in-foreign-affairs/> (accessed August 7, 2022).
- 13 V.D. Savarkar, *Hindutva: Who is a Hindu?* (Bombay, 1969), 110.
  - 14 “Fear the only thing standing in Akhand Bharat’s way: Bhagwat,” *The Times of India*, August 15, 2022, 16.
  - 15 Nakazimo Kazuya, “Japan and India: Looking Beyond the Economy,” *Nippon.com*, October 25, 2019, <https://www.nippon.com/en/in-depth/d00507/japan-and-india-looking-beyond-the-economy.html> (accessed August 17, 2022).
  - 16 Kira Hujū, “Saffronising Diplomacy: the Indian Foreign Service under Hindu nationalist rule,” *International Affairs* 98, no. 2 (March 2022): 423-441.
  - 17 <https://frontline.thehindu.com/dispatches/bjp-cracks-down-on-spokespersons-for-their-remarks-against-prophet-muhammad-and-islam-after-gulf-nations-protest/article65501245.ece> (accessed on April 3, 2023).
  - 18 Hereinafter Abe.
  - 19 “Confluence of the Two Seas,” Speech by Shinzo Abe, Prime Minister of Japan at the Indian Parliament, August 22, 2007, <https://www.mofa.go.jp/region/asia-paci/pm0708/speech-2.html> (accessed April 8, 2023).
  - 20 Abe Shinzo, “Asia’s Democratic Security Diamond,” Project Syndicate, December 27, 2012, <https://www.project-syndicate.org/magazine/a-strategic-alliance-for-japan-and-india-by-shinzo-abe> (accessed April 8, 2023).
  - 21 Quoted by Bharat Joshi, Co-Chair, Confederation of Indian Industry Japan Committee, at the India-Japan Macroeconomic Policy Dialogue, June 16, 2022, via virtual platform. Joshi’s estimates tally with other estimates of cumulative Japanese investments in India for the period 2000-2019/20, such as *The Business Standard* estimate of \$30.27 billion and *The Business Line* estimate of \$34.50 billion. See [https://www.business-standard.com/podcast/economy-policy/what-does-japan-s-42-billion-investment-mean-for-india-122032200088\\_1.html](https://www.business-standard.com/podcast/economy-policy/what-does-japan-s-42-billion-investment-mean-for-india-122032200088_1.html) and <https://www.thehindu.com/news/japans-plans-to-channelise-investments-from-china-to-india-hits-supply-chain-roadblock/article37998826.ece> (accessed April 8, 2023).
  - 22 India has “a certain vagueness in the context of Japan’s Asian diplomacy, writes Ogura Kazuo, *Japan’s Asian Diplomacy*, (Tokyo, 2015), 93.
  - 23 “Policy Speech in New Delhi by Prime Minister Kishida Fumio (New Plan for a “Free and Open Indo-Pacific”),” [https://www.mofa.go.jp/fp/pc/page1e\\_000586.html#:~:text=On%20March%202020%20from%20%3A35%20p.m.%20%286%3A05%20p.m.%2C,plan%20for%20a%20%E2%80%9CFree%20and%20Open%20Indo-Pacific%20%28FOIP%29.%E2%80%9D](https://www.mofa.go.jp/fp/pc/page1e_000586.html#:~:text=On%20March%202020%20from%20%3A35%20p.m.%20%286%3A05%20p.m.%2C,plan%20for%20a%20%E2%80%9CFree%20and%20Open%20Indo-Pacific%20%28FOIP%29.%E2%80%9D) (accessed April 8, 2023).

# 2

## *Overcoming Differences in Values and Interests to Build a Win-Win India-Japan Relationship*

*Toru Ito*

### **The Importance of Japan-India Relations**

The importance of India-Japan relations has been spoken of as if it were a given especially since China grew in strength and increasingly adopted assertive postures toward its neighbors.<sup>1</sup> It has been believed that India and Japan are natural partners with shared values and interests in dealing with the common threat of China.

However, Russia's invasion of Ukraine, which began in February 2022, has shaken the assumption of natural partners. In contrast to Japan, which joined with Europe and the United States in condemning Russia and imposing economic sanctions, India remained neutral and did not join the sanctions circle, and instead continued its "explosive purchases" of Russian oil and fertilizer. Furthermore, India, which assumed the G20 presidency in December 2022, has positioned itself as the voice of the 'Global South' and has begun to emphasize the differences between its interests and those of Western industrialized countries, including Japan.<sup>2</sup> Amid growing concerns about "backsliding democracy" under the second Modi administration,<sup>3</sup> the question now

being asked is whether India is truly committed to a liberal, rule-based international order, as well as to fundamental domestic values such as freedom, human rights, democracy, and the rule of law.

Despite this, the Japan-India relationship is still important. The reason is clear when one considers the current and future power structure in the Indo-Pacific region: Japan's Gross Domestic Product (GDP) in 2021 will be the third largest in the world, but only one-fifth that of the United States (U.S.) and one-fourth that of China, the two largest economies in the world.<sup>4</sup> India, currently ranked 6th, is expected to leap ahead of Japan in the 2020s, thanks to having the world's largest population with a large young population, and by 2037, when China is expected to catch up with the U.S., its GDP will be 1.4 times that of Japan and more than one-fourth that of the U.S. or China.<sup>5</sup> Furthermore, by 2050, India's GDP will be 82 percent of that of the U.S. and 56 percent of that of China.<sup>6</sup> If military spending as a percentage of GDP remains the same as it is now, India will also be close to the U.S. and China in terms of military spending.<sup>7</sup>

In the Indo-Pacific region, where the U.S. and China are expected to compete for power, India will hold the key to the future direction of order. If Japan, which advocates a "free and open Indo-Pacific," wants to maintain a liberal international order based on rules, it has no choice but to engage with India as much as possible. Even a rising India would have a power gap with the U.S. and China, and cannot form an order by itself. For India, which wants to avoid becoming a junior partner, Japan seems to be a convenient and secure partner.

## **Limitations of Military Cooperation and Possibilities for Non-Military Cooperation**

Security cooperation has been a central pillar of India-Japan relations bilaterally and multilaterally: The Joint Declaration on Security was issued in 2008, the Agreement concerning the Transfer of Defence Equipment and Technology and Security Measures for the Protection of Classified Military Information Agreement in 2015, and the Acquisition and Cross Servicing Agreement (ACSA) in 2020. Since 2015, the Japanese Maritime Self-Defense Force has been a regular participant in the Indo-U.S. Malabar exercises, and now all three military types, land, sea, and air, regularly conduct joint exercises with India. In addition to the Foreign and Defense Ministerial level talks

(2 plus 2) since 2018, senior security officials, including high-level officers, have been coming and going frequently.

However, limits to further military cooperation at a level beyond exercises and dialogue are beginning to emerge. In the first place, it is unlikely that India and Japan would fight for the other in the event of their respective contingencies, either at present or in the future. Even if China is a common threat, it is unlikely that the Indian military would risk its life over developments in the East China Sea, including Taiwan and the Senkaku islands, and it is equally unlikely that the Japanese SDF would dispatch troops to a clash on the land border between India and China in light of Japan's national interests and its legality. India, which values strategic autonomy, would not accept a formal military alliance.<sup>8</sup>

Other Western nations may not even consider cooperating with India in actual combat. Instead, what is being done is the sharing of satellite intelligence and other information and weapons cooperation. Unlike the U.S., however, Japan has difficulty in implementing even this. In the first place, the information that Japan can gather is limited, and it is unlikely that it can provide anything useful to India. As for arms cooperation, there is little possibility of its realization, as no progress has been made in the 10 years since the establishment in 2013 of a joint working group on the "export" to India of the Japan Maritime Self-Defense Force's US-2 rescue amphibian. In the first place, Japan's legal system imposes strict restrictions on the provision of weapons (defense equipment) to other countries, and in addition, there are concerns about providing advanced technology to India, which has close ties with Russia. Further, there is a rift between Japan which wants to "Sell" and India demands "Make in India" rather than "Export".

On the contrary, "non-military" cooperation has great potential. Of course, it is true that there are differences between Japan, a developed country, and India, which considers itself part of the "Global South", over the nature of the global economic order, including the IMF, the WTO, and climate change. Nevertheless, both countries have mutual interests in building connectivity infrastructure and supply chains in the Indo-Pacific region that do not depend on China with its growing economic influence, and in supporting countries that have fallen into China's "debt trap". It is true that Japan's financial resources are now limited and that there are many barriers in India

(cultural diversity, legal system, land and labor availability, infrastructure, etc.) that discourage Japanese companies from expanding into India.

However, it is already clear that the risks of relying on China are high, and in light of India's power in the region in the next 10 to 30 years, Japan must become recognized as an indispensable presence for India in certain areas, if not all, at this time. The Indian side is also aiming for an "Atmanirbhar Bharat," that is to say, "self-reliant India," which is de-China in the midst of the India-China military clash and confrontation that occurred with the new COVID-19 disaster. If this is the case, it will be necessary to go beyond the provision of PLI schemes and work more earnestly to create an environment that facilitates the entry of Japanese firms.

### **Japan's Response to Issues Concerning Value**

Of concern is the development underway in India, especially under the second Modi administration, which could shake the premise of India-Japan unity. In an op-ed piece during his visit to India in 2022, Prime Minister Kishida described India as a partner "linked by universal values such as freedom, democracy, human rights, and the rule of law."<sup>9</sup> In a 2013 speech at Johns Hopkins University, he also characterized India as a country that shares fundamental values with Japan.<sup>10</sup>

This is not to say that he is wrong, of course. However, it is also true that it is becoming increasingly doubtful whether India really shares the same values as the West. Most recently, the Modi administration blocked all domestic broadcasts of a BBC documentary critical of Prime Minister Modi, including online, and even conducted a major tax audit of the BBC's India bureau.

The United States and the United Kingdom have expressed concern and even issued warnings about human rights abuses and authoritarian tendencies in India.<sup>11</sup> Each time, however, the Indian side protests, describing it as "colonialist thinking" and that India has its own view of democracy.

Japan has never raised these issues, at least not in public. This may be a wise course to avoid unnecessary friction with the friendly partner. This may be due to the fact that, unlike in the West, public opinion and the media in Japan are not as interested. However, this may be the same attitude that Japan has taken toward China

in the past. If Japan turns a blind eye to India's departure from the values of liberal democracy, if this country becomes a "second China", and if the rift with the U.S. and other countries deepens, it will not be in Japan's strategic interests. Today, companies cannot afford to be indifferent to environmental, social, and governance (ESG) issues. If India's human rights and environmental standards are not much different from China's, there is no point in moving production to India.

Therefore, it is not advisable from a medium- to long-term perspective to say nothing or avoid the issue of value. However, preaching from "the top" as in the West should be also avoided. India's transformation into a second China must be avoided. We must praise India as the "world's largest democracy" and call on the country to continue to act together as a responsible Asian country with shared values.

#### NOTES

- 1 See, for example, the following references by Japanese and Indian scholars and commentators. Yoshiko Sakurai and Japan Institute for National Fundamentals (eds.), *Japan and India: Now a Connected Democratic State: Is China's "Containment" Possible?* (Bungeishunju (in Japanese), 2012); Takenori Horimoto and Lalima Varma eds., *India-Japan Relations in Emerging Asia* (Manohar, 2013).
- 2 Toru Ito, "India has Started to Emphasize the 'Global South'," *International Information Network Analysis*, February 27, 2023, [https://www.spf.org/iina/en/articles/toru\\_ito\\_05.html](https://www.spf.org/iina/en/articles/toru_ito_05.html).
- 3 See, for example, Kazuya Nakamizo, "Dismantling Democracy: The 2019 Indian General Election and the Formation of the 'BJP System,'" *Asian Studies* 66, no. 2(2020); Christophe Jaffrelot, *Modi's India: The Rise of Ethnic Democracy* (Princeton University Press, 2021); Ashutosh Varshney, "How India's Ruling Party Erodes Democracy," *Journal of Democracy* 33, no. 4 (2022).
- 4 IMF, *World Economic Outlook Database*, October 2022.
- 5 CBER, *World Economic League Table 2023*.
- 6 PwC, *The World in 2050*.
- 7 A detailed discussion in this regard is provided ahead. Toru Ito, *India's Identity: The Falsity and Reality of the 'Future Superpower'* (Chuokoron Shinsha (in Japanese), 2023), Chapter 3.
- 8 External Minister S. Jaishankar repeatedly said, "India will never be a part of an alliance system."
- 9 "Contribution to *The Indian Express* by Prime Minister Kishida Fumio of Japan," Prime Minister's Office of Japan, March 19, 2022, [https://japan.kantei.go.jp/101\\_kishida/statement/202203/\\_00019.html](https://japan.kantei.go.jp/101_kishida/statement/202203/_00019.html).
- 10 "Policy Speech by Prime Minister Kishida Fumio at the Johns Hopkins University School of Advanced International Studies (SAIS)," Prime Minister's Office of Japan, January 13, 2023, [https://japan.kantei.go.jp/101\\_kishida/statement/202301/\\_00005.html](https://japan.kantei.go.jp/101_kishida/statement/202301/_00005.html).

- 11 For example, in April 2022, during the India-U.S. Two-Plus-Two meeting in Washington, Secretary of State Blinken said at a joint press conference, “we are monitoring some recent concerning developments in India including a rise in human rights abuses by some government, police, and prison officials.” “Secretary Antony J. Blinken, Secretary of Defense Lloyd J. Austin III, Indian Minister of External Affairs Dr. S. Jaishankar, and Indian Minister of Defense Rajnath Singh at a Joint Press Availability,” U.S. Department of State, April 12, 2022, <https://www.state.gov/secretary-antony-j-blinken-secretary-of-defense-lloyd-austin-indian-minister-of-external-affairs-dr-s-jaishankar-and-indian-minister-of-defense-rajnath-singh-at-a-joint-press-availability/>.



# 3

## *The Ukraine War and its Strategic Fallout on the India-Japan Partnership*

*Masahiro Sakamoto*

### **Stalemate in the Battlefield**

Since Russia invaded Ukraine, the war passed four stages. The first was the battle around Kyiv where the Russian army withdrew after heavy losses. The second was the fierce attack by Russia in the Eastern battle field. The third was the Ukraine counter offence in the East and South which inflicted painful damage to the Russian troops. The fourth is the battle around Bakhmut where in spite of the Russian human wave attacks with massive casualties, the Ukraine forces still remain in the city.

While both sides have suffered heavy attrition during the war, Mr. Putin stated in a recent address that Russia will fight even a longer war. But Mr. Zelenskyy hopes to end the war within this year by fighting throughout. As Ukraine's infrastructure is damaged by Russian shelling, its army is much dependent on Western supplies, and a long war is not advantageous for Mr. Zelenskyy. But Russia also is likely to suffer from weapon shortages as evinced from the aid given by North Korea and Iran. Western sanctions seem to be working.

The fifth scenario of a strong Ukraine counter attack is possible in the near future

by mobilizing the Western tanks and other instruments, but then the war would continue into next year. But, some posit a sixth scenario, where the Ukraine not only damages the Russian army but also recovers most of its lost territory. Mr. Putin cannot accept such a defeat and uses nuclear weapons leading to a rupture with the NATO countries.

## **A New Cold War?**

Having lasted over a year, the Ukraine war has created two antagonistic blocks—the Western group and the autocratic states. Most European countries are horrified at the Russian invasion and have strengthened their solidarity. NATO has recovered from experiencing “brain death”, as described by French President Macron. Finland and Sweden are now asking for membership of NATO. The unilateral use of force has strongly stirred security concerns in Asia, especially with reference to Taiwan. Japan announced it plans to double its military expenditure, and Korea and Australia have both started to increase their defense capability. The United States has activated its military leadership on both fronts of Eurasia, consolidating its alliances and friendly relationships.

Meanwhile, China and Russia have deepened their relations to a no-limits partnership. Messrs. Putin and Xi are proud of their 40 summit meetings! China and Russia find common interest in protesting against the United States, especially in the UN Security Council. They supplement each other: China wants Russian energy, food resources and advanced military technology while Russia benefits from Chinese manufactured products. Immediately after the outbreak of the Ukraine war, China hesitated from supporting Russia fully. But China decided further to fortify the Axis with Russia in spite of its poor performance in the battlefield. Belarus, North Korea, and Iran are now joined to the Axis. Russia is making an effort to mitigate its poor international popularity appealing to countries belong to the Global South with Chinese help. They have also strengthened the partnership with the members of the BRICS and the Shanghai Cooperation Organisation (SCO).

India, while not part of the Axis, abstained from the resolutions of the UN General Assembly condemning the Russian invasion. India has had a friendly relationship with Russia and is now buying a lot of Russian oil. With its recent remarkable economic

performance, India is expected to overtake Germany and Japan in the near future. India is regarded as one of the leading countries of the Global South and has the G20 Presidency for 2023.

The continuation of the Ukraine war has made the confrontation of the two groups deeper and more contrasting. Both sides have increased military exercises. In one incident, a U.S. drone fell in the Black Sea after colliding with a Russian fighter. Some even point out the danger of possible WWIII as mentioned above in the sixth scenario, which should be avoided at all costs.

The Ukraine war has squeezed Russian national power and its international influence is set to decline. Any truce in future will accelerate this trend. But, China's leadership may grow. As Xi's recent trip to Moscow illustrates, Russian dependence on China is substantially increasing. The Russia-China Axis will soon transform into a China-led Axis. The result will be the intensification of the U.S.-China confrontation, thereby shifting the stage to Asia. What will be the Indian response to this change? The Quad can be a suitable framework for India to deal with.

### **Growing U.S.-China Confrontation**

The U.S. National Security Strategy identifies China as the only competitor who has the intent and capacity to challenge the U.S. while it defines Russia as a declining power though it poses an immediate threat to the U.S. China is No.1 in world trade and industrial production with huge population. Its navy has more ships than the U.S. navy and its missiles pose a tremendous threat forming an effective A2/AD capability toward the Pacific Ocean. In the 2010s, China militarized the reclaimed islands in the South China Sea hindering the right of free navigation. Xi has also declared that he will not hesitate from using force in order to unite Taiwan.

Meanwhile, President Biden has been mobilizing allied and friendly countries to activate the Quad and to set up AUKUS in order to deal with China. Last August, the U.S. Congress legislated the CHIPS and Science Act that not only encourages U.S. domestic production of chips but also cuts off the transfer of the advanced semiconductor technologies to China. Interestingly, the U.S. Congress was united against China in this case, while it remains divided on many other issues.

The anti-China sentiment is inspired by several reasons: Strong reaction against China-favoring policy in the past, theft of advanced technologies and more than 1 million deaths from the China-originated COVID-19. In response to an autocratic and surveillant China, more American aid flows to democratic Taiwan. China, as expected, takes the U.S. actions as adversarial, aiming to contain and weaken China. At the same time, China considers the U.S. to be in a process of decline and that judging from the politically divided state, American democracy is malfunctioning. So, the Chinese political system is in a superior position. However, U.S. engagement with Taiwan exceeds the red line, which China cannot tolerate.

Xi, now in the third term as Secretary General of the Chinese Communist Party (CCP) as well as President of the People's Republic of China (PRC) is strongly consolidating his power. He sends a strong message of China as a global superpower claiming to realize the Chinese Dream of Rejuvenation. Building a strong socialism state of common prosperity and modernization of PLA by endogenous technologies are part of his essential agenda and the lynch-pin is the unification of Taiwan with mainland China.

In spite of Xi's ambitious goals, China now suffers from various social and economic problems. Population onus, youth unemployment, real estate turmoil, fiscal deficit of local governments, low productivity of state enterprises are among the list of the concerns. Furthermore, China has entered into a slow growth phase implying a culmination of the national power.

Hal Brands argues the U.S. will confront China even militarily in the 2020s in his recent book titled "*Danger Zone: The Coming Conflict with China*". His logic is that a rising power wages war when it recognizes the peak of its national power, referring to Germany in WWI and imperial Japan in WWII.

The Chinese leadership recognizes the peaking of national power as the above-mentioned difficulties indicate. Furthermore, Beijing may see that the present time is not advantageous to press the Taiwan issue, because the Taiwanese people will strengthen their identity. And U.S. engagement may accelerate this process. Hal Brands further indicates some very important points. Even if China loses the war in the Taiwan Straits, the U.S.-China confrontation will continue even in the 2030s and 2040s. As the U.S. has not the will to send an army to China's mainland unless the

China Communist Party collapses, China can rebuild its army and the conflict will continue. Therefore, though the U.S. will maintain a military and diplomatic advantage over China, the tension will persist for a longer time.

## Similarity with the Situation before WWI

The current confrontational state of the U.S. block vs. the China-Russia axis has a similarity with the situation before WWI where Germany, Austria, and Turkey group were against Britain, France, and Russia and later the United States.

As Table 1 indicates, Germany, a rising power, challenged the existing power Britain. At the time, Germany was a champion of the second industrial revolution with the strongest army. Berlin was the center of medicine, chemistry, physics, and music. The enlargement of naval forces threatened the foundation of the Pax Britannica. Britain's national strategy was to balance European competitors and to dominate the seven oceans by the British naval forces. Britain ruled one-fourth of the world population and territory and while it managed world trade, London City dominated world finance with the pound as key currency.

**Table 1: International System of Pax Britannica and the Succession Process to Pax Americana**

	1860	1913			1925		1937		1960		2023		
	U.K.	U.K.	GE	U.S.	U.K.	U.S.	U.K.	U.S.	U.S.	SU	U.S.	CH	ID
Security	A*	A*	A	C	A	A	A'	A'	A*	A*	A*	A	A'
Currency	A*	A*	B	C	A*	B	A'	A	A*	B	A*	B	C
Finance	A*	A*	B	B	A'	A*	A'	A	A*	C	A*	B	C
Trade	A*	A*	A	A	A	A	A	A	A*	B	A	A*	B
Industry	A*	A'	A	A*	B	A*	B	A*	A*	B	A	A*	B
Population	A	A	A	A*	B	A*	B	A*	A	A	A	A*	A*

Notes 1. A\*, A, A', B, C, E express the degree of influence from major to minor.

2. GE for Germany, SU for Soviet Union, CH for China, ID for India.

Source: Masahiro Sakamoto, from *Pax Americana and Japan*, Chuo University, 2001.

Currently China has a huge population. China is No. 1 in trade and industry with a challenging military power. However, China is weak in international financial while the U.S. has a preponderant power in financial and currency areas and in military fields. A similar conflicting structure existed between Germany and Britain before WWI.

WWI provide the spring board to the U.S. to become the world leader. At the end of 19<sup>th</sup> century, the U.S. was a preponderant industrial power with limited military and financial capabilities. After WWI, the U.S. became a financial giant with sizable military capability, though Britain remained as a world power with key currency of pound and strong naval forces. The great recession shifted the dollar over the pound and WWII pushed the U.S. to become the world leader. It was a smooth process, and there are three reasons for the succession. Firstly, after WWII the U.S. became preponderant in military capabilities as well as economically, financially. Secondly, the U.S. and Britain had the common enemies of Germany and Japan in WWII and American and British military and bureaucrats fought a common war. Thirdly, the U.S. had blueprints for post-war international institutions such as the UN, IMF, GATT which were imbued with values of liberalism acceptable to Britain. Such conditions do not exist between the U.S. and China currently. As G. Modelski remarked, a challenging state did not gain hegemonic succession (1987).

## **Future of India and Japan**

While the U.S.-China confrontation continues, the question that arises is what position India will take. India's population now exceeds that of China and with its high economic growth, India has overtaken Britain and is expected to be third in the 2020s ahead of Japan and Germany. India's GDP will be second highest in the 2030s and 2040s with a sizable nuclear power, all indicating that India will be required to convey a more positive international message.

Being a middle power, Japan will be active as a member of G7, Quad, and TPP while consolidating bilateral relations with the countries of Asia, Europe, and Africa.

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## II. TRADE, INVESTMENT, AND ECONOMIC SECURITY





# 4

## *Prospects and Challenges for Japan-India Cooperation in Economic Security*

*Shutaro Sano*

### **Introduction**

Japan's latest National Security Strategy (revised in December 2022) acknowledges the growing importance of economic measures in ensuring national security, and emphasizes the significance of establishing consistency with the Economic Security Promotion Act enacted in May 2022. The act highlights four pillars: (1) securing a stable supply of critical goods; (2) securing reliability for key infrastructure; (3) enhancing development for important advanced technologies; and, (4) introducing a non-public patent system. While these pillars are basically aimed at strengthening Japan's domestic economic foundation, pillars (1) to (3) deserve attention in examining the prospects and challenges for India and Japan to enhance their strategic partnership.

### **In Securing a Stable Supply of Critical Goods**

#### *Cooperation in Diversifying Supply Chains*

The global spread of COVID-19, Russia's invasion of Ukraine and China's aggressive actions including the increased risk of a Taiwan crisis, have all elevated the importance

for a deeper cooperation in diversifying supply chains. One important measure would be to curb excessive dependence on a particular country such as China. However, difficulties remain for Tokyo and New Delhi in moving their companies out of China given their deep economic interdependence with Beijing. Meanwhile, aggravation of the Russo-Japanese relations over the war in Ukraine has also increased the need for Japan to move away from Russia not only with regard to transporting goods<sup>1</sup> but also on developing important natural resources such as natural gas. As apparent from India's reluctance to impose economic sanctions on Russia, however, there are differences in how Tokyo and New Delhi view Moscow, preventing the two countries from seeking stronger cooperation over their respective relations with Russia.

Despite these challenges, establishment of a development/manufacturing platform for critical goods such as the next generation semiconductors have become a significant field for cooperation as they generate major innovations in areas of quantum technologies and AI. For its part, in 2022 Japan designated the stable supply of advanced semiconductors as top priority in national security.<sup>2</sup> Furthermore, Japan has strengthened cooperation with the U.S. to shore up supply chain resilience of semiconductors in Japan, the U.S., and other like-minded countries and regions. In this context, Japan has succeeded in attracting Taiwan Semiconductor Manufacturing Co. (TSMC), the world's largest semiconductor foundry, to launch production in Kumamoto Prefecture, Kyushu. India is also trying to attract foreign companies with an intention to manufacture chips within the country.

Tokyo and New Delhi are both showing great interest in mutually diversifying their semiconductor supply chains. The two countries, together with Australia, for instance, announced the Supply Chain Resilience Initiative (SCRI) in September 2020. They also showed their intentions, together with 12 other countries, to participate in the U.S. proposed Indo-Pacific Economic Forum (IPEF), which targets the strengthening of semiconductor supply chains apart from other areas. In addition, cooperation has been enhanced at the private level.<sup>3</sup> Further efforts need to be explored to promote public-private cooperation.

Cooperation can also be expected on rare earth materials, which are used in various items from high-tech machinery to military equipment. Production of rare earth is, however, currently uneven among major producing countries, with 60 percent

of global rare earth production coming from China in 2021.<sup>4</sup> Under these circumstances, Japan is aiming to reduce its reliance on China for rare earth.<sup>5</sup> India, on its part, possesses 6 percent of the world's rare earth reserves, and is not, according to the Union Minister Dr Jitendra, reliant on China for accessing rare earth minerals.<sup>6</sup> However, India produces only 1 percent of global output,<sup>7</sup> and meets most of its requirements from China. As a result, the Quad may be the logical platform to counter China in the rare-earth sector by developing rare earth projects and technologies.<sup>8</sup>

Difficulty exists, however, given the different political demands and priorities of the Quad countries, hindering the progress in building a common supply chain in the short run. As a result, Japan and India may need to seek deeper cooperation bilaterally instead. Japan's METI, for example, may be able to strengthen cooperation with India, through the Japan Oil, Gas and Metals National Corporation (JOGMEC). Furthermore, supply chains of rare metals involve various stages such as mine development, smelting and product manufacturing, requiring advanced technologies and talent. Japan's advanced technologies may benefit from deepening cooperation with India in this regard.<sup>9</sup>

### ***Cooperation in Establishing Resilient Supply Chains***

Maritime security is a vital element in establishing resilient supply chains. A Japan-India dialogue on ocean security and coast guard capacity building assistance measures will be critical in this regard. Meanwhile, securing safe sea lines of communication (SLOC) especially along chokepoints such as the Strait of Malacca and the Strait of Hormuz has always been a pressing significant issue. Closely related, the strategic significance of the Andaman and Nicobar Islands (ANI) has increased with China's growing influence along the Strait of Malacca. Despite New Delhi's hesitance to allow further foreign involvement in the region, there is a high need for cooperation in enhancing maritime security in and around the ANI. Deeper cooperation over the ANI would also be essential in enhancing a Free and Open Indo-Pacific (FOIP).

Outer space development is also an important element in promoting maritime security. The second meeting of the Japan-India Space Dialogue held in November 2021, for example, demonstrated the depth of strategic alignment between Tokyo and New Delhi. In line with these bilateral efforts, it will also be important to cooperate

in strengthening navigation satellite systems as well as in developing multinational cooperation through the various existing regional and global institutions.<sup>10</sup>

## **In Securing Reliability for Key Infrastructure**

### *Cooperation through Japan's ODA Projects and other major Development Initiatives*

Japan's rich ODA experiences will be key in securing reliability for key infrastructure overseas. In India specifically, Japan has provided ODA projects from 1950s and is currently enhancing various infrastructure projects such as the Mumbai-Ahmedabad high speed rail. Meanwhile, Northeast India and the ANI have become more important strategically with the growing influence of China. Japan has, thus far, engaged in infrastructure development in these regions but there is an increasing need to enhance both quality and scale of these ODA projects.

Furthermore, India has, with its massive population and fast-growing economy, the potential to enhance various development initiatives. The Asia-Africa Growth Corridor (AAGC) is one major initiative, but is currently at a standstill and needs a trigger. The growing call for a Global South may, for instance, serve as a driving force. In January 2023, Prime Minister Narendra Modi chaired the Voice of the Global South Summit and called for the Global South to play a role in shaping the new world order. Similarly in March 2023, Tokyo laid out a new plan to develop the FOIP vision through the enhancement of quality and scale of its ODA projects towards the Global South countries.

Closely related, Japan and India may be able to strengthen cooperation in places such as Djibouti. Unlike countries such as China and Japan which have military presence in Djibouti, India has decided to build its military base on the Agalega Islands in Mauritius instead. However, Djibouti has become increasingly important for India with the development of undersea cables such as the 2Africa and the Raman Submarine Cable System. As a result, there is an incentive for India to cooperate with Japan in enhancing overseas infrastructure development initiatives in countries like Djibouti as well as in other parts of Africa. As pointed out, Japan's global competitiveness in optical submarine cable infrastructure enabled India to partner with Japanese companies for advancing the Digital India program.<sup>11</sup>

### ***Cooperation in Ensuring a Safe and Stable Cyberspace***

The risks of hampering free access and actions have become a serious concern in areas such as cyberspace. Notably, cyber attacks are increasing rapidly and endangering key infrastructure. Under these circumstances, Tokyo made a policy decision for the first time in December 2021 to promote capacity building assistance measures towards developing countries in cyber security. Concretely, Japan specified that it would expand the regions of assistance to include the Indo-Pacific with India and the African countries in mind through public-private collaboration.<sup>12</sup>

In line with these efforts, Tokyo has been deepening its bilateral cooperation with New Delhi in cyber security including the signing of Memorandums of Cooperation (MoC) in October 2020 and March 2022. Furthermore, the two countries held the Fourth Japan-India Cyber Dialogue in June 2022, and discussed bilateral cooperation in capacity building with cooperation under the UN, Quad and the ASEAN Regional Forum (ARF). Further cooperation would be necessary through other regional and international institutions as well the European Union.

Meanwhile, Japan is, unlike other countries, unable to launch cyber defensive action against potential attackers even when signs of a potential risk are detected given the current interpretation of its constitution and laws relating to the use of force. This has to be amended as soon as possible.

### **In Enhancing Development for Important Advanced Technologies**

Japan and India need to further step up cooperation on ICT. The two countries had signed a Memorandum of Understanding (MoU) in January 2021 on ICT cooperation, including 5G technologies and security of information infrastructure. Further agreement has been reached regarding 5G during the Quad summit meeting in May 2022 to enhance public-private dialogue. Efforts have also been made through the initiation of Fujitsu Research of India Private Limited (FRIPL) in April 2022, which aims to accelerate joint research projects in AI and quantum software. Similar ventures need to be explored.

Meanwhile, 5G, AI, and quantum are dual-use technologies and have highly significant implications for national security. As a result, policy choices by Tokyo and New Delhi will be determined not only by their intentions to gain an edge in global

competitiveness but also by the geopolitical power balance, including the great power competition between the U.S. and China/Russia. Japan and India will, therefore, need to strike a right balance of their commercial and security needs and funding for their development in advanced technologies.

## **In Strengthening the Foundation for Cooperation in Economic Security**

In order to enhance cooperation in economic security, it would be significant for Japan and India to further identify areas and the degree to which they can cooperate on supply of critical goods in third countries as well as to step up their efforts in establishing and strengthening a multi-layered mechanism.

India, on its part, needs to secure its presence in various international organizations. First, the Quad must remain as a non-military mechanism to maintain support from India. Second, Japan needs to identify ways to enable the return of New Delhi to the Regional Comprehensive Economic Partnership (RCEP). Third, development and production of advance technologies includes elements of protectionism, necessitating Japan and India to find consistencies with the rules set by the WTO.

Japan and India also need to widen support across the policy spectrum and expedite interactions to solidify the foundation for stronger cooperation in economic security. The two countries have elevated the “2 plus 2” dialogues to a ministerial level and also increased Track 1 and Track 2 dialogues over time, but still lag behind on people-to-people ties. Enhancement of study and education collaboration and relaxation of Japan’s immigration restrictions will also be important for India.<sup>13</sup>

### NOTES

- 1 Before Russia’s military invasion in Ukraine, Japan was able to use the 9,300-km-long railway connecting Vladivostok and Moscow as well as the flight route over Russia.
- 2 METI, “Measures to Promote Manufacturing Technology (White Paper on Monodzukuri 2022),” May 2022, [https://www.meti.go.jp/english/press/2022/0531\\_004.html](https://www.meti.go.jp/english/press/2022/0531_004.html).
- 3 In June 2022, for example, Japan’s Renesas Electronics Corp and India’s Tata Motors established a partnership to design, develop and manufacture semiconductor solutions for domestic and global markets.
- 4 U.S. Geological Survey, *Mineral Commodity Summaries*, January 2022, 135, <https://pubs.usgs.gov/periodicals/mcs2022/mcs2022.pdf>.

- 5 Japan relies on imports from China for nearly 60 percent of its rare earth materials.
- 6 Department of Atomic Energy, “Union Minister Dr Jitendra says, India is not reliant on China for accessing rare earth minerals,” December 14, 2022.
- 7 U.S. Geological Survey, n. 4.
- 8 Japan and the U.S. are major consumers of rare earths while Australia and India are suppliers.
- 9 Japan is planning to begin in 2024 to extract essential rare earth materials from the deep sea bottom in the area off Minami-Torishima Islands, located 1,900 km southeast of Tokyo.
- 10 These include the ARF Workshop on International Cooperation on Maritime Domain Awareness (MDA), Expanded ASEAN Maritime Forum (EAMF), the International Maritime Organization (IMO), and the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP).
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- 12 Previously, Japan had mainly carried out its assistance with the ASEAN countries at a government level, but now it will focus the regions more broadly as well as strengthen its assistance through not only at the government level but also public-private collaboration.
- 13 Currently, Indians account for only 0.5 percent of international students studying in Japan (2017). Tokyo also needs to encourage more Japanese students to study in India.



# 5

## *Expanding the India-Japan Partnership*

*Ujal Singh Bhatia*

### **A Changing World Order**

The world has changed dramatically in the first two decades of the 21<sup>st</sup> century. These changes signify a changed paradigm for global interdependence, a paradigm in which geopolitical alignments play an increasing role. Several events or developments have contributed to the changed global situation, among which the global financial crisis of 2007-08, the rise of China as a global economic powerhouse, the COVID-19 pandemic, the emergence of climate change as a central concern in policy-making, and the ongoing digital transformation are the most significant.

Collectively, these events have had a significant, even disruptive, impact on global engagement. The sustained buildup of excess liquidity in advanced economies as a result of quantitative easing and stimulus packages after the financial crisis and the slowdown caused by the pandemic has made inflation a key issue for policy makers across the world. The International Monetary Fund (IMF) has recently warned that the global economy is facing years of slow growth, with medium term prospects their weakest in more than three decades.<sup>1</sup>

The United States, because of domestic political compulsions, appears to have increasingly withdrawn from its global leadership and is looking more and more

inwards. Some of its recent policy measures like the Inflation Reduction Act have raised concerns about its growing protectionism<sup>2</sup> and have led to tit-for-tat measures like the EU's Green Deal Industrial Plan.<sup>3</sup> The new geopolitical scenario is increasingly adversarial, with its extreme iterations talking about a new cold war or decoupling from China on the one hand, and 'friend shoring' or 'ally shoring' on the other.<sup>4</sup>

The pandemic has highlighted several fault lines in global cooperation. Advanced economies built up huge reserve supplies of vaccines while millions in poor countries without access to such vaccines struggled to survive. Export restrictions on vaccines, therapeutics, diagnostics, and intermediates proliferated. A major outcome of the pandemic was to make supply chain resilience an important consideration in policy-making across the world. The conflict in Ukraine has further highlighted supply chain vulnerabilities in energy and food.

The greater urgency felt around the world to address climate change is likely to lead to a flurry of unilateral or plurilateral measures in several parts of the world. In the absence of a multilateral process to agree on common principles for trade measures to address climate change, such measures cannot be merely wished away. At the same time, their disruptive potential for world trade must be recognized and dealt with.

The digital transformation is redefining global interdependence and the way the world does business. But uneven access to digital technologies and the differing approaches to data management and ownership, including issues of standard setting and regulation, privacy, cyber security, etc., not only threaten to deepen global inequalities, but also create new fracture points in the global economy.

It is clear that the unipolar era of the 20<sup>th</sup> century is over, and the world is transitioning to a new, more uncertain period with multiple zones of influence and power. Multilateralism as a means of building consensus around global challenges is also facing headwinds. And yet it is precisely in this period of uncertainty that the world needs consensus-based multilateral approaches to decision-making.

It is in this changed global context that India and Japan need to redefine the terms of their partnership for the next phase. India and Japan, with their shared commitment to democracy and economic openness, while pursuing policies for enhancing economic security, have much to lose from fragmentation of the global

economy along geopolitical lines. At the same time, the two countries can make a significant contribution to ensure an orderly transition to a new world order, which emphasizes sustainability, equity, and the benefits of interdependence. While expanding their bilateral partnership is obviously the biggest priority, in an increasingly multi-polar world, the India-Japan partnership also needs to function as a platform for an open partnership of countries that share an interest in global cooperation based on shared values. Global challenges require global solutions and the partnership should seek to be a forum for discussing such solutions.

### **Expanding Bilateral Economic Cooperation – Building on Complementarities**

It has been clear for long that while at a political level, the understanding between the two countries continues to grow, the economic relationship, while it is deepening, is far from its potential. Japanese foreign direct investment into India has grown at a tepid pace. While definitive conclusions based on detailed studies are not available, it appears that some of the key reasons hampering Japanese investment in India concern the regulatory complexity, as well as regulatory uncertainty in India. From the Japanese side, the reasons for lack of enthusiasm among Japanese companies to invest in India are at best anecdotal. It is important that a definitive study is conducted among Japanese companies operating in India as well as Japanese companies potentially interested in entering India to ascertain the key problem areas from their perspective.

The two countries have strong complementarities in several areas that can enhance their global competitiveness in the future as well as their role in the emerging world order. These include:

1. Technology areas like ICT, including advanced semiconductors, quantum computing, and AI.
2. Issues around energy security: Japan's technological strengths and India's ambitious energy transition plans can work together in several areas –
  - Development of renewable energy technologies like green hydrogen
  - Given India's continued reliance on coal-based power, better technologies for reducing emissions in thermal power stations
  - Large energy storage systems

- India has an ambitious target of achieving 500 gigawatts of clean energy capacity by 2030 in order to meet 50 percent of its electricity needs from renewable sources
3. In the health sector, Japan is a world leader in research based solutions in drugs and diagnostics while India is the world's pharmacy for generic drugs.
  4. India has considerable, not fully explored deposits of rare earths and Japan has technologies for their efficient extraction and processing.
  5. The different demographics provide a basis for cooperation in several areas involving skilled workers, including ICT and healthcare. The two countries need to explore arrangements for more liberal movement of skilled persons.
  6. Japan's status as a developed economy and India's leadership of the Global South provide a sound basis for extending the partnership to other parts of the world, especially Africa.
  7. While Japan brings technological strength and capital to the partnership, India provides world class skills in technology areas as well as a huge market.

In all these areas, Japanese firms, with their high technologies, global reach, and access to low-cost capital, can add substance to the partnership between the two countries. Several Indian firms have similar capabilities, but typically have higher costs of capital and lesser access to global markets. Business-to-business collaborations of this kind can add great value to the partnership between the two countries.

## **Building Supply Chain Resilience**

Dealing with supply chain vulnerabilities and building supply chain resilience should continue to be a major focus while developing the partnership. While doing so, it needs to be recognized that such resilience cannot be built up effectively without expanding its geographical scope. The Indo-Pacific region which is the most dynamic part of the world, accounting for 63 percent of the world's GDP, 65 percent of its population, and around 50 percent of its maritime trade, is the natural theater for such an expansion.<sup>5</sup> India and Japan as two of the three largest economies in the region, can play a defining role in its future.

In order to do so, the India-Japan partnership should endeavor to strengthen and

deepen existing networks of cooperation in the region. A mechanism for building deeper ties with ASEAN and the Republic of Korea needs to be developed. An important constraint in developing deeper trade relationships in the Indo-Pacific is India's non-participation in the Regional Comprehensive Economic Partnership (RCEP). As a result, a larger platform for integrating tariffs, rules of origin, standards, etc., is unavailable. The India-Japan partnership needs to examine other WTO consistent ways through which this issue can be addressed, including through widening the existing trade agreements to which both countries are parties, or even by thinking of new trade arrangements. Options for India would include joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or re-engaging with the RCEP.

A basis for actively engaging with ASEAN, either collectively or with its individual members, would be very useful in meeting the objective of supply chain resilience. Similarly, the India-Japan partnership needs to work together to strengthen regional initiatives like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Indian Ocean Rim Association (IORA). Building a strong network of economic relationships in the Indo-Pacific region and beyond is not only critical for developing meaningful supply chain resilience, it is also important for its political messaging.

## **Addressing Global Challenges**

Beyond the Indo-Pacific region, the India-Japan partnership would do well to recognize that it can play a useful role in addressing global challenges through joint or coordinated approaches. Climate change, public health challenges like pandemics, and the digital transformation are examples of such global challenges, which by definition, require global approaches and solutions.

At present, there is little multilateral discussion to coordinate trade policy responses to climate change mitigation. As a result, several countries are exploring unilateral measures which, when implemented, could cause serious trade tensions. The EU's proposed Carbon Border Adjustment Mechanism (CBAM) is an example of such unilateral measures. It is important to start a dialogue among key countries to avoid such a situation.

Similarly, such a dialogue is required to address global public health challenges like pandemics. The World Health Organization (WHO) is currently negotiating a “Pandemics Prevention, Preparedness and Response Accord”. The India-Japan partnership should work together to ensure a meaningful outcome by building a larger dialogue on this issue.

The digital transformation should also be a central theme of the partnership. India and Japan should seek to synchronize their approaches to data management, including issues like standards and regulation, privacy, and cyber security.<sup>6</sup> The absence of international rules is a major problem for seamless data flows.

### Linking Up with Other Regions

In order to build greater traction for its values-based approach on global issues, the India-Japan partnership would do well to explore dialogues with other parts of the world. The European Union which is also committed to the values of democracy, economic openness, and multilateralism, would be an important dialogue partner. The EU’s Global Gateway Strategy offers a basis for such a collaboration.<sup>7</sup> Such a dialogue could not only bolster supply chain resilience between the participants but could also further understanding between them on broader global issues.

Similarly, Japan and India need to collaborate on their approaches to Africa. An agreed position on global challenges like public health and food security would be a good platform for such an engagement. They should also consider an active role in developing physical and digital infrastructure in Africa. The African Continental Free Trade Area (AfCFTA) covers 54 African states and is a major initiative in regional integration.<sup>8</sup> The India-Japan partnership should explore ways in which it can collaborate with this initiative.

### NOTES

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# 6

## *India-Japan Trade and Economic Engagement: Interpreting the Past and Present, Speculating the Future*

*Shamshad A. Khan*

### **Introduction**

With an objective to give strong foundation to their strategic partnership, India and Japan signed the Economic Partnership Agreement (EPA), a kind of free trade agreement in 2010 eliminating custom duties and various tariffs on the goods they trade. The India-Japan trade and economic partnership has only deepened especially after the EPA came into effect in 2011. However, it has not achieved the stated objectives such as increasing the trade volume between Asia's No. 2 and No. 3 economies. The bilateral trade volume remains below the potential. This chapter examines the context in which the EPA was signed and the challenges it faces. Section 1 looks into evolution of India-Japan economic engagement starting with the pre-war period and gives the historical background up to Cold War period. Section 2 looks into evolution of bilateral relations during the Cold War period highlighting the context in which the present economic partnership has evolved. Section 3 investigates the challenges and concerns that have emerged especially in India regarding the growing



trade gap between India and Japan post-EPA. Section 4 concludes with few suggestions to further reinvigorate the bilateral economic partnership.

### **India-Japan Trade and Economic Engagement: Interpreting the Past**

The India-Japan bilateral trade and economic relationship during the last century has witnessed phases of “peaks” and “troughs.” During the “peak” phases, bilateral economic partnerships were robust and during the period of “troughs”, the bilateral relationship had been minimal. To understand this trend, a cursory look into the history of the bilateral trade and economic relationship of India and Japan is needed. Japan made an effort to boost trade and economic partnership with India, when the latter was still under British administration by signing a trade convention in 1894 which paved the way for regular ocean transport. As a result of this treaty, trade between India and Japan prospered, including in the field of cotton, making India the third largest trade partner for Japan by 1910.<sup>1</sup> This was start of a “peak” phase of bilateral trade partnership that continued till the start of World War II (WWII) as the two countries added various resources into their trade basket. Apart from raw cotton and raw jute, India supplied iron ore to Japan<sup>2</sup> establishing a complementary economic relationship where the former provided resources for Japanese industries and later provided revenue to India.

However, with the start of WWII, the bilateral economic relationship came to a standstill pushing the burgeoning relationship to a phase of “trough.” After the end of WWII, coinciding with the establishment of diplomatic ties, independent India offered its resources to Japan’s war-weary industry in a hope to revive the pre-war complementary economic partnership. Japanese Indologist Hiroshi Sato is of the view that India’s overture towards war ravaged Japan was to see a resurgent Japan “in a complementary perspective.”<sup>3</sup> This was quite contrary to the United Kingdom and Australia’s attitude towards Japan’s post-war recovery who saw it as a “revival of a competitive economic power.”<sup>4</sup> Independent India’s gesture towards Japan has also been acknowledged by Yoichi Funabashi. Funabashi opines that India offered “an olive branch” to Japan when it was “surrounded by hostile powers” and gave it “coal and steel when others would not.”<sup>5</sup> This was the start of another peak phase but could not last long because of external and domestic reasons. The Cold War pushed India and Japan into two different camps. India’s tilt towards the USSR and Japan

joining the U.S.-led security arrangement impacted their economic and political relationship. Domestically, the Indian government's policy of "nationalization"-collectivisation of mines and other resources from private ownership to the government ownership along with the policy of using the resources for India's industrialization derailed the resource-driven trade partnership. A Japanese diplomat notes that these policies "eventually resulted in the cooling-off of the great enthusiasm of the 50s."<sup>6</sup> The absence of a strong political relationship between the two Asian countries also impacted the flow of investment from Japan to India. Suzuki remains an exception which signed a joint venture with Maruti. Others did not find India's restrictive foreign investment policies conducive and shied away from India.<sup>7</sup>

### **India-Japan Trade and Economic Engagement: Interpreting the Present**

After the end of the Cold War period, the psychological fence that separated India and Japan was broken. The end of Cold War period coincided with India's Liberalisation, Privatization and Globalization—dubbed as LPG policy—which generated renewed interest in Japan including its investors. On its part, the Indian side identified Japan as a most important source of "investment and technology"<sup>8</sup> in its economic reform policy. A slew of political interactions between the two countries culminated in a bilateral strategic partnership in 2006 where the two countries agreed that a summit level interaction between the prime ministers of both the countries will take place annually. Notably, the economic partnership was an essential part of the post-Cold War bilateral partnership. The leadership of the two countries noted that "a strong prosperous and dynamic India is in the interest of Japan and vice versa."<sup>9</sup> Then Indian Prime Minister Manmohan Singh announced in a speech in 2006 that the economic partnership should be the "bedrock"<sup>10</sup> of the India-Japan relationship. Bilateral trade and economic cooperation between the two countries that year was hovering around US\$ 6 billion. The Indian leadership acknowledged that economic ties remained "well below the potential."<sup>11</sup>

Against this background, India and Japan set up a Joint Study Group (JSG) to find complementarities and identify untapped potentials to give fillip to economic ties. The JSG consisted of various stakeholders from both sides, including government officials and academic experts. After rounds of deliberations, it prepared a report

identifying that the economies of both the countries are “highly complementary in terms of factor endowments, capabilities, demographic profiles, convergences and specializations.”<sup>12</sup> As regards bilateral trade, the JSG noted that even though it is on the rise, the trade figure was not “commensurate with the two countries’ economic size and potential.”<sup>13</sup> As regards the trade in the services sector, the JSG identified “enormous potential” between the two countries and suggested both the governments “remove barriers to trade in services”, adding emphasis to cover “all services sectors and all modes of supply in GATS.”<sup>14</sup> It also highlighted that “services liberalization should be designed to enhance the competitiveness of each economy” and special emphasis should be given on areas such as “IT, financial services, telecommunication services, construction services and transportation services.”<sup>15</sup> These findings led the JSG to recommend an Economic Partnership Agreement (EPA), which will provide a “proper architecture for bilateral economic engagement”<sup>16</sup> between the two countries.

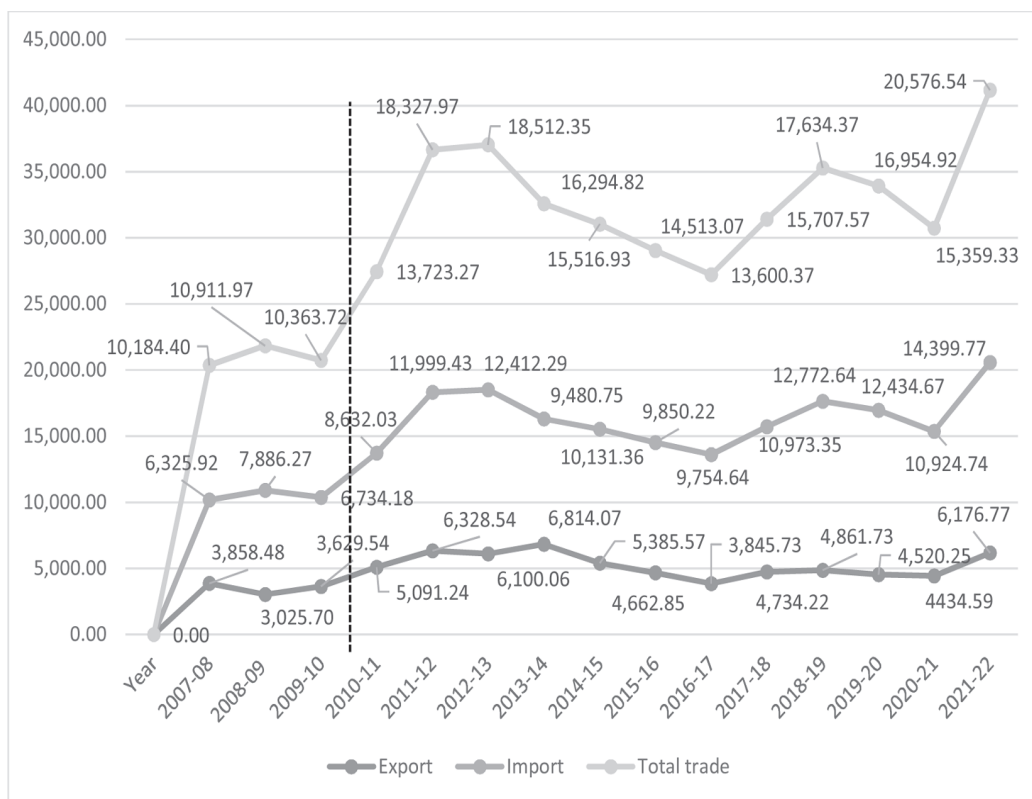
Most of these recommendations reflected in the EPA (also known as Comprehensive Partnership Agreement or CEPA) signed in 2010 and coming into effect on August 1, 2011. The bilateral FTA document stated that CEPA will “open a new era of relationship” between the two countries and would “contribute to expanding trade and investment not only between the two parties but also the region.”<sup>17</sup> Both the countries made a commitment to “eliminate or reduce its custom duties on originating of other Party” and over the next 10 years they eliminated or drastically reduced tariffs on goods traded between the two countries barring few products which were put under the exclusion list and there would be no tariff elimination. India was hoping that Japan will open up its caregiver services for its nurses and was seeking similar treatment given to the Philippines in line with the Japan-Philippine EPA.<sup>18</sup> However, the Japanese side asked India to wait for few more years and the bilateral EPA noted that “Japan shall enter into negotiation with India... regarding the acceptance of Indian qualified nurses and certified careworkers by Japan, with a view to reaching a conclusion of the negotiations within one year if possible, but not later than two years, after the entry into force of this Agreement.”<sup>19</sup> Over 10 years of CEPA coming into effect have elapsed but a negotiation between India and Japan is yet to take off. Japan, however, has welcomed qualified technical skilled

persons to work in the country and CEPA agrees to facilitate the flow of natural persons.<sup>20</sup>

### Optimism and Concerns

Since the India-Japan economic partnership covered trade in services and goods it was termed as an “alliance between Japanese technology and capital and a young Indian labour force”<sup>21</sup> and generated lots of expectations especially in India. The EPA did boost bilateral trade volume within a year of coming into effect. Japan-India trade was worth about US\$ 18.5 billion in fiscal 2012, an 83 percent increase from five years earlier, reported Nikkei Asia<sup>22</sup> (see Figure 6.1).

Figure 6.1: India-Japan bilateral trade (dotted vertical line denotes EPA coming into effect)



However, concerns about the EPA started surfacing in the Indian media as the trade gap widened. One of India's leading financial dailies, *The Financial Express* on its front page put the headline as "It is advantage Tokyo in India-Japan economic pact" highlighting the trade imbalance between India and Japan. As is evident from the 2012 trade figures (refer to Figure 6.1), Japanese export to India grew by 40.96 percent while India's export to Japan managed to grow only 18.39 percent. Similar concerns were also raised by the Indian government, and continue to surface at the regular intervals. India's trade and commerce ministers both from the previous UPA government and the present NDA government have aired their grievances about the growing trade imbalance between India and Japan.<sup>23</sup> The situation has not changed much. Rather it has worsened. Bilateral trade statistics of FY 2021-22 indicate that trade between the two countries stands at US\$ 20,576.54 billion in which India's export to Japan has been worth US\$ 6,176.77 billion and import from Japan has been worth US\$ 14,399.77 billion. This indicates that something is amiss and needs urgent attention to address this issue.

Considering that the JSG has noted in its findings in 2006 that the trade figure was not "commensurate with the two countries' economic size and potential,"<sup>24</sup> the present trade figure of US\$ 20 billion is not an encouraging figure. Researchers have tried to identify the reasons behind this slow pace of growth in India-Japan trade despite promises in the EPA. These include stricter "rule of origin" criteria, non-awareness of custom duty concession in India-Japan EPA as well as technical trade barriers. For example, Kohei Shiino, Associate Professor at Takushoko University, points out that the stricter rule of origin criteria remains a major stumbling block in gaining tariff concessions promised by the India-Japan EPA. The bilateral EPA puts the restriction of 35 percent value-added criterion and change in HS code at six-digit level as a general rule. If these two criteria are not met simultaneously, the Certificate of Origin (CO) at the exporting country cannot be issued and exporters cannot get any tariff concession."<sup>25</sup> Similarly, a study led by V.K. Saraswat at NITI Aayog found that Indian exporters are not effectively utilizing the CO for their exports. The study notes, "Complex rules of origin criteria, lack of information on FTAs, higher compliance costs and administrative delays dissuade exporters from using preferential routes. The compliance cost of availing benefits under these FTAs is so high that exporters prefer using the normal route. India has actively pursued FTAs with several major trading partners in the past without benefitting much."<sup>26</sup> Some scholars have

highlighted “behind the border barriers” such as high sanitary and phytosanitary measures placed by Japan for Indian exports of poultry, meat, tuna, shrimp, mine products, and fruits.”<sup>27</sup>

Since the India-Japan economic partnership is driven by the strategic objective to ease economic dependence on China and give further impetus to the existing strategic relationship, the widening trade gap between India-Japan is not likely to lead to a trade friction as was witnessed in the past between the U.S. and Japan and currently between the U.S. and China. However, leadership of both the countries must make sincere efforts to address the concerns emanating from different circles in India.

## **Conclusion and Way Forward**

The analysis in this chapter suggests that India-Japan economic cooperation has seen various ups and downs. The bilateral free trade agreement known as EPA was signed between the two countries with an obvious objective to uplift the abysmally low trade hoping that economic cooperation will give strong pedestal to India-Japan ties. However, as it is evident from the trade statistics, the bilateral EPA has added only US\$ 10 billion over the last 10 years. On the contrary, a similar CEPA signed between India and the United Arab Emirates (UAE) in 2022 has registered 30 percent growth within a year pushing bilateral trade to US\$ 88 billion and is “expected to boost non-oil trade between the two countries to US\$ 100 billion in five years from US\$ 60 billion in 2021.”<sup>28</sup> The UAE, as a result, maintains No. 3 rank among trading partner countries for India while Japan has been pushed down to 14th rank. Considering that Japan and India remain the No. 2 and No. 3 economies of Asia, respectively, this is not encouraging. The leadership as well as stakeholders must find ways to push trade and economic ties to their potential.

First and foremost, both the countries should re-open the EPA and should reconstitute the Joint Study Group consisting of various stakeholders who should deliberate afresh and examine as to why India-Japan bilateral trade has stagnated.

Second, since the EPA promised to start negotiations on accepting Indian nurses and caregivers within two years of coming into effect, it should open negotiation in this regard. Japan had asked India to wait for two years as it was finding it difficult to

absorb the Philippines caregivers beyond the training period because their success rate to learn the Japanese language was very low. However, after changes in the pattern of Japanese language test, their passing success as well as absorption increased. Japan should offer similar options to Indian nurses and caregivers. Moreover, fear of failure of Indian nurses and caregivers should not be a discouraging factor for both the countries to delay negotiations. Even if a few fail to get absorbed after their training period due to their Japanese language competency, they would be a great asset to India back home as they will utilize the skills gained in Japan sector in Indian medical sectors. Allowing the entry of Indian caregivers into Japan will give a further push to trade in services sector.

Third, India and Japan should revisit the stricter “rule of origin” clause in the existing EPA. Apparently, the percentage of rule of origin has been kept a bit high as it was feared that parties other than Japan and India would take advantage of duty concessions. However, as it turned out, it has become a major stumbling block for exporters of India and Japan. Moreover, getting the certificate of origin to gain trade concessions promised in the EPA has become a difficult and time-consuming process and increases the transaction costs. Of late, Japan has entered into negotiations with various EPA partners to revisit the rule of origin clause. Similar measures should be adopted by India and Japan to assuage the concerns of each other’s exporters. Lowering the rule of origin criteria will hopefully uplift bilateral trade.

And finally, to meet the high sanitary and phytosanitary (SPS) measures, which act as a “behind the borders barrier” in flow of Indian products into Japan, Tokyo should provide technology as well as training to Indian export sectors. Technology will be great enabler in this regard to match Japanese standards. It will not only help facilitate export of Indian products such as shrimp, poultry, vegetables, and fruit to Japan but also to European countries, New Zealand and the U.S., which in the past has denied entry of Indian products into their markets citing SPS standards.

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# 7

## *Foreign Direct Investment from Japan to India: Patterns, Impediments, and Recommendations*

*Naresh Chandra Sahu*

### **Introduction**

There has been significant difference in the flow of Foreign Direct Investment (FDI) from Japan to China and India, according to the Japan External Trade Organisation.<sup>1</sup> In 2020, the FDI inflow from Japan to India was \$229.23 million, whereas for China, it was five times higher at \$933.55 million. India experienced its lowest FDI inflow in 2003 at only \$94.43 million while China's FDI inflow from Japan was \$3979.97 million. By 2008, India's FDI inflow had increased to \$4470 million but China's FDI inflow rose to \$6495.99 million. From 2000-2011, China experienced a continuous increase in FDI inflow from \$933.55 million to \$12649.28 million while India saw rapid fluctuations. India's all-time high FDI inflow from Japan was in 2016 at \$5781.17 million, which dramatically decreased to \$1745.43 million in 2017. Even after improving in 2019 to \$3561.42 million, it again declined to \$1839.97 million in 2021. In contrast, China has shown an opposite trend, with sustained FDI inflow growth—even after a deterioration in FDI inflow in 2013 at \$9103.54 million, it further improved to \$12087.87 million in 2021. Therefore, it can be said that

India's FDI inflows from Japan have not been stable, while uniformity in FDI inflow is evident in the case of China. This is a serious cause of concern for a country like India, which is not able to provide favorable conditions for Japan's FDI investment, despite having friendly relations.

According to the Department for Promotion of Industry and Internal Trade, there are many fluctuations in FDI inflow from Japan to India, with both higher upturns and downturns.<sup>2</sup> China is a manufacturing and export-driven economy while India is more focused on the domestic market and services. Japanese companies traditionally invest in China to access its large manufacturing base and export potential while in India, they are more focused on the growing consumer market.

In recent years, India has been implementing various economic reforms to attract foreign investment, such as the introduction of a Goods and Services Tax (GST), simplification of business regulations, and improving the ease of doing business. These measures have made India a more attractive investment destination for Japanese companies.

### **Impact of Japan Plus Initiative**

Japan Plus is a strategic bilateral initiative between India and Japan to promote, facilitate, and retain Japanese investments in India. Prime Minister Narendra Modi and his Japanese counterpart Shinzo Abe signed the Investment Promotion Partnership in Tokyo in September 2014. Under this partnership, Japan agreed to invest 3.5 trillion yen in the next five years. Thus, the Japan Plus facilitation mechanism was especially created to manage and fast track investment proposals from Japan to their end goal. Japan Plus is headed by four representatives from the Government of India and three from the Government of Japan; one nomination from METI, one from JETRO and one nomination from Aichi Prefecture. The team helps handle investment promotion for SMEs from Japan by providing strategic business advisory, policy guidance, location assessment, issue redressal, and expansion support. The team also provides updated information on investment opportunities to Japanese firms across different sectors, especially in the industrial corridor projects. The services provided by Japan Plus include stakeholder meetings, policy advisory, regulatory clearance facilitation, site visits, issue resolution, research content deliberation, and location

analysis. Under this initiative, a dedicated team of officials from various Indian government agencies, including the Department of Industrial Policy and Promotion (DIPP) and the Ministry of External Affairs, work closely with Japanese companies and investors to address their concerns and provide assistance in setting up and operating their businesses in India. The initiative also provides a single-window clearance system for Japanese investments in India.

Japan Plus has helped to boost the inflow of Japanese investments in India, particularly in sectors such as automotive, infrastructure, renewable energy, and electronics. The initiative has also led to the signing of several important agreements between India and Japan, such as the India-Japan Comprehensive Economic Partnership Agreement (CEPA) and the India-Japan Investment Promotion Partnership (IJIPP).

Top of FormThe volume of Japanese private investment in India has increased since 2014 owing to the Indian government's efforts, like the creation of a special Japan Plus desk at the Ministry of Commerce and Industry to minimize the bureaucratic obstacles in clearing investment projects. The cumulative Japanese investment in India from April 2000 to December 2016 amounted to \$25.2 billion, accounting for 8 percent of India's total FDI during that period. Apart from the overall positive effect of Japan Plus, there is decrease in FDI inflow from Japan to India. In 2014, FDI inflow was \$2335.02 million which decreased to \$1,839.97 million in 2021.

## **Challenges in Attracting FDI from Japan**

India is facing a number of challenges in attracting more FDI from Japan. Investors face political and economic unpredictability, geographical complexity, and a diversified socio-cultural environment. Strict labor laws, a complex land acquisition system, and lengthy regulatory permissions became a major hurdles. Trade union laws vary between states. The existence and difference of a number of laws between states and the center create confusion among investors. Apart from this, the lack of a technically skilled labor force and poor logistics are causes of serious concern. Other problems include India's low positioning in the global production network, inadequate last-mile connectivity, and power shortages all discouraging manufacturing sector investment.<sup>3</sup>

## **Recommendations**

India is already taking a number of initiatives to enhance the business environment in the country. Make in India is such an initiative. India is taking steps to revitalize crucial industries and lower logistics costs by 10 percent. The government is spending more on road transportation, specialized railway freight corridors, and foreign private sector participation. In 2017, the Department of Commerce created a logistics section to manage national logistics infrastructure.

But these steps are not enough for creating a more favorable investment environment. Apart from the above initiatives, India can eliminate unnecessary delays in obtaining building permits, registering property, and enforcing contracts. More transparency and a strict anti-corruption policy needs to be implemented. Providing high-tech infrastructure and uninterrupted power, as well as dealing with water pipeline and transportation issues can be stepping stones in increasing FDI inflow. Simplifying the tax system, land acquisition, and associated approvals process can also help in attracting more FDI inflow. The Indian government requires to skill labor force through advanced skill training programs and strengthening the link between academia and industry to improve personnel operational efficiency.<sup>4</sup>

Both countries should be aware of the Japanese and Indian languages and cultures. Indian workers can understand Japanese work culture, which includes extensive planning, meticulous attention to detail, and strict discipline. Moreover, ensuring effective intellectual property enforcement needs to be strengthened. Furthermore, India should encourage the transfer of technology in infrastructure and other industries. Moreover, India has high potential of trade on climate smart goods with Japan.<sup>5</sup>

Given Japan's demographic challenge caused by its elevated median age and declining population, India's abundant pool of skilled workers can serve as a valuable asset to address the economic requirements of Japan. India's young, diversified, and affordable talent pool could help Japan. Since India has a large share of middle-class consumers, Japan can target these population needs. Moreover, India has vast cultural and geographical diversity, Japanese companies can collaborate with regional manufacturers. For example, Haryana and Maharashtra have not faced problems with infrastructure as these regions are suitably developed to support the endeavors of Japanese companies. Japan can also focus on India and Japan culture awareness to increase work efficiency.

Importantly, investment in India can help in boosting the Japanese economy. Quantitative and qualitative easing via boosting money supply, negative interest rates, and export promotion are key elements of Abenomics to lift Japan from its two-decade slump. Japanese companies have more incentive to expand internationally, which makes India an attractive candidate. The JBIC (2014) Survey on Overseas Business Operations found that Japanese firms are most interested in India's labor market growth, labor prices, local market size, and potential as a production base for exports.

## **Conclusion**

In conclusion, the comparison of FDI inflows from Japan to China and India reveals that India has not been able to provide a stable investment environment for Japan despite friendly relations, while China has seen a sustained growth in FDI inflows. The differences in the economies of the two countries play a significant role in this disparity. India's focus is on the domestic market and services while China's is on manufacturing and export. This has resulted in Japanese companies investing more in China to access its large manufacturing base and export potential, and look to India only for the growing consumer market. To address this, India has implemented various economic reforms, including the creation of the Japan Plus facilitation mechanism to boost FDI inflows from Japan. This initiative has led to an increase in Japanese investments in sectors such as automotive, infrastructure, renewable energy, and electronics. However, India still faces challenges in attracting FDI from Japan due to political and economic unpredictability, complex land acquisition system, and labor laws. It is essential for India to address these challenges and create a favorable investment environment to attract more FDI from Japan, which can be a significant contributor to the country's economic growth given the Indo-Japanese friendship and strategic relationship.

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### III. ENERGY AND DIGITAL PARTNERSHIPS





# 8

## *India-Japan Cooperation in Green Hydrogen/Ammonia*

*Tatsuo Shikata*

### **National Green Hydrogen Mission**

The Union Cabinet chaired by Prime Minister Narendra Modi approved the ‘National Green Hydrogen Mission’ on January 4, 2023. The initial outlay for the Mission will be INR 19,744 crore (US\$ 2.4 billion)<sup>1</sup> including an outlay of INR 17,490 crore (US\$ 2 billion) for Strategic Interventions for Green Hydrogen Transition Programme (SIGHT), INR 1,466 crore (US\$ 176 million) for pilot projects, INR 400 crore (US\$ 48 million) for R&D [Strategic Hydrogen Innovation Partnership (SHIP)] and INR 388 crore (US\$ 47 million) toward other mission components. The Ministry of New and Renewable Energy will formulate guidelines for implementation of the respective components, with the following likely outcomes by 2030:

- 1) Development of green hydrogen production capacity of at least 5 million MT (metric ton) per annum with an associate renewable energy capacity addition of about 125 GW in the country.
- 2) Over INR 8 lakh crore (US\$ 96 billion) in total investments.
- 3) Creation of over 6 lakh (600,000) jobs.

- 4) Cumulative reduction in fossil fuel imports of over INR 1 lakh crore. (US\$ 12 billion).
- 5) Abatement of nearly 50 million MT of annual greenhouse gas emissions.

The Mission will have wide-ranging benefits, particularly the creation of export opportunities for green hydrogen and its derivatives to make India a global hub of green hydrogen and decarbonization of industrial/mobility/energy sectors.

The Mission will facilitate demand creation, production, utilization and export of green hydrogen. Under the SIGHT, distinct financial incentives targeting domestic production of electrolyzers and the production of green hydrogen will be provided under the Mission. Further, a public-private partnership framework for R&D (SHIP) will be facilitated under the Mission.<sup>2</sup>

## **Green Hydrogen/Ammonia: Demand and Supply**

### *Hydrogen in the World*

Hydrogen has the highest energy content of any common fuel by weight (about three times more than gasoline), but it has the lowest energy content by volume (about four times less than gasoline). Hydrogen has zero carbon content and is a non-polluting source of energy, and according to the International Renewable Energy Agency, hydrogen shall make up 6 percent of total energy consumption by 2050.

The global demand for hydrogen in 2020 is 70 million MT per year, out of which 76 percent is produced from natural gas, 23 percent from coal and the remaining from electrolysis of water. According to the IEA's 'Net Zero Scenario' demand will rise to 212 million MT per year by 2030, and 38 percent (80 million MT) may be green hydrogen.

Since hydrogen is highly flammable and an explosive reaction may be triggered by spark, heat or sunlight, we need to be very careful while handling hydrogen.

### *Hydrogen in India*

In 2020, India's hydrogen demand stood at 6 million MT per year, and it is expected to jump to 28 million MT by 2050, when 80 percent of the demand is expected to

be green in nature. India is planning to produce 5 million MT of green hydrogen by 2030. At present, about 40 percent of hydrogen is consumed by the crude oil refinery industry and chemical industry, respectively. The demand is predicted to gradually expand to transportation, power generation, etc.

Hydrogen is processed to ammonia that is used to produce fertilizer, of which demand is 15 million MT per year, and at present about 15 percent of the demand is covered by imports. With the National Green Hydrogen Mission, India will be self-sufficient as far as ammonia-based fertilizer is concerned.

Hydrogen will potentially be used to produce steel, replacing the usage of coking coal, of which demand is 58 million MT per year and 52 million MT is imported.

Hydrogen will be also used for fuel cell electric vehicles (FCEV), which will run on hydrogen instead of gasoline without harmful emissions and will be suitable for heavy duty vehicles with longer trip range such as buses, trucks, etc. While, battery electric vehicles (BEV) may be suitable for light passenger vehicle segment for shorter driving range and dependent on imported raw materials like lithium and cobalt for lithium-ion batteries. With the introduction of FCEV, the hydrogen fuel cell supply chain can be wholly indigenized to make India self-sufficient in the clean transportation segment.

### ***India's Progress toward Green Hydrogen***

PM Modi aims to transform India into an energy independent nation by 2047, where green hydrogen will play an active role as an alternate fuel to petroleum/fossil-based products. Reliance Industries Ltd., Gas Authority of India Ltd., National Thermal Power Corporation, Indian Oil Corporation, Larsen & Toubro, etc. are planning to enter into the green hydrogen business. India has declared its ambition to become an exporter of hydrogen and to eventually become a global hub of hydrogen supply.<sup>3</sup>

### **Energy Independence in India**

In May 2020, the Modi administration presented its vision of a “Self-Reliant India” by declaring “Energy Independence” by 2047, the centenary of the country's

Independence. India is trying to cover 50 percent of its electricity demand by renewable energy by 2030, and from the electricity surplus, green hydrogen will be produced.

The key policy is “Production Linked Incentives (PLI)”, which was announced in April 2020. Since the Galwan Valley incident in the Himalayas in June 2020, the Sino-Indian relationship has substantially deteriorated. In its bid to reduce dependence on China, the Indian Government has expanded the PLI scheme to 14 strategic sectors with a subsidy of more than INR 1.97 lakh crore (US\$ 26 billion) covering automobiles, advanced chemistry cell batteries, pharmaceuticals and drugs, telecom and networking products, etc.

India depends on imports for more than 80 percent of its crude oil and more than 50 percent of natural gas, which is the basis of chronic trade red figures, and in order to achieve “Energy Independence”, India has focused on green hydrogen, which will be produced from the surplus electricity on the solar power basis. The Government is planning to invest US\$ 2 billion of PLI for the production of electrolysis to produce hydrogen from water.

In COP 26, India committed to reducing CO<sub>2</sub> emission by 45 percent from the 2005 level by 2030, and by 2070 she would achieve carbon neutral. Green hydrogen will be the key to realize this commitment.

## **Cooperation between India and Japan**

### *India-Japan Clean Energy Partnership*

When Prime Minister Fumio Kishida paid a visit to India in March 2022, both governments published the ‘India-Japan Clean Energy Partnership’, in which the leaders agreed to extend the cooperation in “Clean, including Green Hydrogen” and “Clean, including Green Ammonia”. They acknowledged that these are “sunrise areas of growth and the biggest business opportunities”.

### *Japanese Cutting-Edge Technologies*

Hydrogen is gas, and in order to transport/store it, it has to be converted to liquid by freezing up to minus 253 degrees centigrade, which becomes 1/800 in terms of volume. Japanese companies such as Kawasaki Heavy Industry have cutting-edge technologies

for the purpose through their long experience of transportation/storage of LNG at minus 162 degrees centigrade. Kawasaki has constructed the first vessel to carry liquified hydrogen in compliance with regulations of International Maritime Organization (IMO). Kawasaki has already constructed containers for land transportation, loading/discharging arms, storage tanks, etc. For storage tanks, it is essential to mitigate “boil off gas” (liquid hydrogen can vaporize due to the heat of the sun) as much as possible, and Kawasaki has more than 30-years’ of experience in the JAXA Tanegashima Space Center.

Japanese companies are also experimenting with co-generation systems using hydrogen gas turbines to combust a mixture of hydrogen/LNG and 100 percent hydrogen to produce both electricity and heat based on existing gas turbines of LNG. In order to commercialize such operations, “contradictory” technologies are needed to stabilize combustion as well as reduction of NO<sub>x</sub>.

Japanese companies are also studying the transportation of hydrogen by processing it to ammonia, which is liquified at minus 33 degrees centigrade (much higher than minus 253 degrees centigrade to liquify hydrogen), and by processing it back to hydrogen after transportation is over. ENEOS Holdings are also studying the transportation of hydrogen at normal room temperature by processing it to methylcyclohexane and processing it back to hydrogen after transportation.

The key is how to reduce costs of production/transportation/storage to a commercially competitive level in comparison with alternative energy. The aim is to set up global green hydrogen/ammonia supply chain networks.

Meanwhile, IHI will start an experimental operation of coal-based power plant by mixing ammonia with coal in Gujarat with the support of NEDO and will expand the same operation in other areas. IHI will eventually aim for ammonia 100% combustion in the future. There must be good opportunities between India and Japan in green hydrogen/ammonia.

## **Singapore and Other Countries in the Indo-Pacific**

On October 25, 2022, Singapore Deputy Prime Minister Lawrence Wong, who will take the place of Prime Minister Lee in the near future, announced the ‘National Hydrogen Strategy’. He said that hydrogen would be a frontier of the next generation

and Singapore would try to convert maximum 50 percent of fuel for the generation of electricity by 2050 in order to achieve the target of 'Net Zero Emissions' by 2050. The Singaporean government will support the development of hydrogen generation, establishment of global supply chain networks and R&D.

Keppel Corp., Mitsubishi Heavy Industry and IHI have decided to construct a hydrogen/LNG based power plant in Jurong Islands with the capacity of 600,000 KW by 2026, and they will gradually increase the amount of hydrogen in the mixture. Sembcorp Industries Ltd. and IHI have agreed to establish a supply chain network of ammonia produced by green hydrogen, and Sembcorp is also studying the import of 60,000 MT per year of hydrogen from Australia and the Middle East.

According to "Hydrogen Insights Report" published by McKinsey and Hydrogen Council in September 2022, the demand of hydrogen and its derivatives all over the world in 2050 will amount to 660 million MT, out of which India/Japan/China/S. Korea will share more than 40 percent. Australia will also be a major producer/exporter of hydrogen by 2030 given its 'National Hydrogen Strategy'.

In the meantime, on March 4, 2023, Japan hosted the first Ministerial Meeting of the "Asia Zero Emission Community", which consists of Japan, Australia, and ASEAN countries (except Myanmar), in order to achieve the goals of the Paris Agreement, and there is a good chance for India to join it to accelerate efforts toward net zero emission.

## **Conclusion**

In sum, the Indo-Pacific will be a major producer/exporter/consumer of hydrogen, ammonia and their derivatives, and the key is how to reduce the cost of production/transportation/storage to make hydrogen competitive with other alternative energy to fossil fuel. At the same time, certifications to assure the safety of hydrogen are critically important for winning the trust of users and for building up global green hydrogen/ammonia supply chain networks.

With Japanese cutting-edge technologies of production/transportation/storage and the Indian government's robust support through 'National Green Hydrogen Mission' and "Production Linked Incentives", there are good opportunities to develop

global hydrogen/ammonia supply chain networks among Japan, India, Australia, Singapore, and other Indo-Pacific countries.

#### NOTES

- 1 The conversions are as follows:  
lakh: 100,000 (100 thousand)  
crore: 10,000,000 (10 million)  
lakh crore: 1,000,000,000,000 (1 trillion)  
1 INR = 0.012 US\$
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# 9

## *India-Japan Cooperation in Non-Renewable Power Generation*

*Atsushi Fukumi*

### **Introduction**

As the realization of a low-carbon society becomes a global challenge, cooperation among emerging countries is indispensable, as their greenhouse gas emissions are expected to further expand along with their future economic development. As India is becoming the world's most populous country, its energy consumption will inevitably increase dramatically in the future, and the country's energy and environmental policies are the focus of global attention. Under these circumstances, we propose the promotion of energy cooperation between India and Japan, including the use of greenhouse gas reduction technologies for coal-fired power generation.

### **India's Economic Development and Climate Change Solutions**

After the economic crisis of the 1990s and the turmoil caused by policy changes, India's economic growth in the 21st century, driven by the breakthrough of its services sector, has made many consider it as the driving force behind the global economy, following China. India overtook the UK as the fifth largest GDP in 2022<sup>1</sup> and China as the largest population by April 2023,<sup>2</sup> making it the last remaining giant emerging

market. Meanwhile, India's greenhouse gas emissions have doubled in the past 20 years, making it the world's third largest emitter of greenhouse gases after China and the United States, and the country is now the focus of global attention in addressing climate change.

One of the most talked-about issues in recent climate change negotiations is that India was the first country to specify concrete figures for achieving carbon neutrality at the 26th Conference of the Parties (COP26) to the United Nations Framework Convention on Climate Change (UNFCCC) in 2021. Prime Minister Narendra Modi, who himself attended the conference, stated that India would: 1) Reach 500GW non-fossil energy capacity by 2030; 2) 50 percent of its energy requirements from renewable energy by 2030; 3) Reduction of total projected carbon emissions by one billion tons by 2030; 4) Reduction of the carbon intensity of the economy by 45 percent by 2030, over 2005 levels; and, 5) Achieving the target of net zero emissions by 2070.<sup>3</sup> Although the roadmap for achieving these goals is not certain, the fact that India clearly stated the timeframe for achieving carbon neutrality for the first time, in defiance of prior expectations, was generally received favorably by the international community.

## **India's Energy Strategy and Coal Dependence**

These efforts to combat climate change are an extension of the energy strategy pursued by successive Indian administrations to gradually reduce dependence on coal while meeting future electricity demand, which is expected to increase rapidly, primarily through the development of renewable energy sources such as solar and wind. Although improvements are being made, economic and social infrastructure is still underdeveloped, and energy access is inadequate in many areas, especially in rural areas; per capita electricity consumption in 2022 will be 1255 kwh, only about one-third of the global average. Therefore, a significant increase in electricity demand is expected as people's standard of living increases, but at the same time, environmental degradation in the country, as exemplified by air pollution, has become significant, and there is a need to balance the need to reduce environmental burdens.

In addressing this difficult issue, expectations are growing for the role that renewable energy will play. The Modi administration's efforts are particularly ambitious,

and in 2015, shortly after its inauguration, it drew the world's attention with its bold goal of increasing renewable energy generation capacity, excluding hydroelectric power, to 175 GW by 2022. Through measures such as requiring power distribution companies to purchase renewable energy and providing various incentives, including tax breaks, to attract private investment, the installed capacity of renewable energy increased to approximately 120 GW by the end of 2022. Although the initial target has not been achieved, this can be regarded as a significant step forward. However, coal-fired power generation accounts for about 70 percent of total power generation, the highest share among major countries, and in future energy scenarios, coal-fired power generation is estimated to remain the main power source accounting for 40 percent of total power generation as of 2040.<sup>4</sup> Maintaining these plans makes India's position in climate change negotiations difficult.

One of the main reasons for this is that coal-fired power is the cheapest energy source available, and coal is one of the few domestically produced energy sources for India, which has the world's fifth largest proven coal reserves. On the other hand, the supply of natural gas is limited, although its development is currently underway, and nuclear power's share of power generation is only about 3 percent, due to its development being delayed as a result of more than 30 years of technological isolation since the nuclear tests conducted in 1974. Therefore, both are not viable candidates for baseload power generation to replace coal-fired power. It is widely known that a stable supply of renewable energy is difficult to achieve, and that many technical issues remain to be solved, such as the construction of energy storage systems to compensate for unstable power supply, and the establishment of treatment and recycling of waste materials such as aging solar panels. Therefore, coal-fired power generation is considered a realistic option in terms of cost, energy security, and stability of supply. In other words, this situation reflects the reality in emerging economies that the transition to a low-carbon society will require more time and that they will have to rely on conventional energy sources, including coal, for at least a certain period of time.

### **Potential for India-Japan Energy Cooperation**

While USSR/Russia and Europe have been India's major partners in the energy sector, Japan has also been involved in various ways, including the construction of thermal

and hydroelectric power plants and projects to rebuild the power transmission and distribution network with the aim of reducing transmission and distribution losses, the biggest weakness of the power sector. In recent years, Japanese companies have been participating in a series of large-scale renewable energy projects, and a Clean Energy Partnership (CEP) was signed to promote energy cooperation between Japan and India when Prime Minister Kishida visited India in 2022. The two countries have been working closely together to achieve carbon neutrality. Therefore, it is important to explore possibilities for cooperation in the development of all low-carbon technologies, including renewable energy, energy storage, and EVs, in order to realize a decarbonized society, which is a global challenge not only for the two countries.

With this in mind, we emphasize here the importance of cooperation to improve the efficiency of coal-fired power generation and to develop technologies to reduce greenhouse gas emissions. Japan is a better partner for India in this area than other major countries in the following two respects.

For one thing, Japanese coal-fired power generation achieves the world's highest power generation efficiency through a method called ultra-supercritical pressure, which increases the pressure and temperature of steam turbines to the limit.<sup>5</sup> In recent years, Japan has developed technologies to reduce greenhouse gas emissions from coal-fired power generation, including the use of biomass fuels and ammonia co-firing, which can further reduce greenhouse gas emissions by reducing the use of coal. Second, Japan has the best understanding of India's energy situation of any developed country and can be a partner with shared interests. Of course, India's rapidly expanding economy and Japan's declining population and long-term economic stagnation present different challenges to both countries' energy strategies. However, the two countries are in similar situations, with low energy self-sufficiency and a limited share of nuclear power generation. Japan's main power source is natural gas, but it relies almost entirely on imports, and as for nuclear power, its use is also limited due to the Fukushima accident in 2011 and the subsequent delays in restarting operations of reactor due to various problems. Under the circumstances where power shortages are a concern, coal-fired power generation is being reevaluated.

Therefore, at least for a certain period until renewable energy technologies are established and a stable energy supply is realized, if coal-fired power generation

technologies developed by Japanese companies can be used in India and other emerging countries, and if joint technological development can be promoted, a significant reduction in environmental impact can be achieved. In fact, the export of coal-fired power generation technology has been one of Japan's public-private sector initiatives that have emerged as a realistic option during a period of transition despite criticism that it is backward-looking. However, the greenhouse gas emissions from coal-fired power generation are nearly twice that of natural gas. The export of high-efficiency coal-fired power generation technology, has not been possible after the Joint Statement of G7 Climate, Energy and Environment Ministers' Communiqué was issued in 2021.

However, the situation surrounding coal-fired power generation is changing dramatically with the invasion of Ukraine by Russian troops in 2022 and the ensuing turmoil in the energy market. EU, the U.S., Japan, and other countries have imposed sanctions against Russia and have taken steps to restrict energy imports. Many EU member-states were heavily dependent on Russian natural gas, and have been forced to rewrite their long-term energy strategies. Concerns about serious energy shortages have led EU countries such as Germany and France to return to coal-fired power generation.<sup>6</sup> Therefore, now is the time to initiate discussions to find a way to enable the export of coal-fired power generation technology.

### **A Realistic Approach to Achieving Carbon Neutrality**

India, the world's largest democracy with 800 million voters, is known for its often dramatic changes of government, but it is also a developing country with the world's largest population of the poor. Therefore, the central and state governments must always take the poor into consideration in their administration, and they must be especially cautious about the energy policy, which could threaten people's livelihoods, especially the livelihoods of the poor, through inflation. If costs were to increase, passing them on to consumers would be political suicide, resulting in a reliance on state finance.<sup>7</sup> Such financial deficits from electricity sector have undermined the development of the country's electricity sector and the state's finances for many years. India's stubborn stance, no matter how much international criticism it faces at climate change negotiations and, most recently, over imports of Russian fossil fuels, reflects this domestic situation.

The above-mentioned India-Japan Clean Energy Partnership emphasizes that each country's unique situation must be taken into consideration and that there are various paths to achieving a low-carbon society. Both countries with shared interests should explore the possibility of realizing a low-carbon society, including the use of greenhouse gas reduction technologies for coal-fired power generation as well as renewable energy.

#### NOTES

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# 10

## *India and Japan: Towards a Stronger, Comprehensive, and Global Digital Partnership*

*Mahima Duggal*

The ongoing decade has been characterized as an era of information, innovation, and new technologies. The introduction of disruptive technologies, like the generative artificial intelligence (AI) tool ChatGPT, has further spurred the fourth industrial revolution (4IR). Most importantly, the geopolitics of technology has assumed critical importance in the U.S.-China great power strategic competition, as 4IR has given way to shifting power balances. The U.S. National Security Strategy (NSS)<sup>1</sup> and the Chinese Communist Party's Work Report,<sup>2</sup> both released in October 2022, present starkly contrasting worldviews on technology. Even as Beijing reinvigorates and bolsters the Digital Silk Road<sup>3</sup> to export Chinese technologies and expand Beijing's influence, the U.S. has initiated its own Digital Connectivity and Cybersecurity Partnership<sup>4</sup> to promote values like inclusive growth, open internet, a diverse and resilient communication infrastructure, and therefore shape the global digital economy and order. Not only is critical and emerging technology a leading domain of competition, but also a deeply embedded component of political, cultural, economic, and social factors that distinguish the two countries.

Even as the U.S. and China push for two diametrically opposed techno-political systems, their approach toward technology adoption and tactics to stay ahead in the great power technology competition are strikingly similar.<sup>5</sup> Amid such a scenario, the rest of the world is faced with a dilemma and growing pressures to co-opt either side. For middle powers like India and Japan, the key challenge is how to safeguard a peaceful world order while protecting universal democratic values in the digital domain. For both India and Japan, technology is critical to economic, industrial, and economic development, and nation-building. How can they uphold and build their strength while jointly providing third countries with a third open-source alternative beyond the U.S. and China?

To explore these questions and understand how India and Japan can take their technological cooperation further, this chapter reviews the India-Japan digital partnership and identifies areas for further growth. It argues that while India and Japan have built a strong strategic, comprehensive, and global partnership, the global element of their relationship remains somewhat underexplored. For the partnership to truly achieve its potential, Delhi and Tokyo must accord greater focus to making their digital partnership more global in nature.

## **India-Japan Digital Partnership**

As part of their effort to build a comprehensive, strategic partnership, India and Japan have long been cooperating in the science and technology (S&T) domain. Japan's long history and tradition of scientific research, stretching back to the Meiji era, and its emergence as a global leader in technology and innovation made it a natural partner for India. This cooperation was first formalized in 1985 with the signing of the Inter-Governmental Agreement. Since then, Japan has risen as India's foremost economic and technological modernization partner. In 1993, both countries initiated a Cooperative Science Program with joint projects encompassing numerous fields; in FY2020-21 for instance, this program shifted its focus to COVID-19 related technologies and AI applications. This was followed by a Memorandum of Understanding (MoU) in 2006, and a Letter of Intent signed in 2015, between the Indian Department of S&T and Japanese S&T Agency to set up joint laboratories for research on Internet of Things, big data analysis, and data science applications in food security and responding to climate change.<sup>6</sup>



Over time, India-Japan technological cooperation has expanded to include cooperation in achieving SDGs, particularly vis-à-vis agriculture, health, water and energy; space domain; environment and climate change; earth and marine sciences, including polar and ocean research in the Arctic, deep-sea exploration, earthquake and tsunami warning systems, and gas hydrate technologies; environment, including nuclear energy technology; life sciences and healthcare, including fighting COVID-19; and agriculture.<sup>7</sup>

Collaboration took on new momentum in 2018, when India and Japan initiated a Digital Partnership (IJDP) during former (late) Prime Minister Shinzo Abe's visit to Delhi.<sup>8</sup> It is coordinated by joint working group meetings between India's Ministry of Electronics and Information Technology (MeitY) and the Japanese Ministry of Economy, Trade and Industry (METI). This partnership encompasses six key domains, with numerous activities and projects ongoing under each vertical:

1. **Start-up initiative and corporate partnership:** Key activities in the start-up and corporate pillars of the IJDP include several industrial round-table interactions, such as between NASSCOM and Japanese industry (for instance, on early adoption of Indian IT platforms); VC networking events; virtual pitching and business matching events across various sectors; the Nippon India Digital Innovation Fund to support India's start-up ecosystem; MeitY-Japan External Trade Organization (JETRO) efforts to support Japanese tech start-ups in India, subsidy support for Indian projects under Japan's Asia Digital Transformation program.
2. **Digital talent exchange:** Taking a lead in this domain, JETRO has organized job fairs at top Indian universities, set up a web portal for internships and another for highly skilled jobs with Japanese companies, conducting seminars on 'hiring Indian talent' for Japanese firms and encouraging them to hire advanced technical personnel from India.
3. **R&D cooperation:** In the R&D space, India and Japan are working together in advanced and emerging technologies like AI and machine learning. This includes joint activities and MoUs between their respective research centers, universities, and industries.
4. **Electronic Systems Design and Manufacturing (ESDM) promotion:** In

ESDM, the Indian embassy and JETRO are working towards facilitation and business matching to attract more Japanese investments in India.

5. **Security related strategic collaboration:** Talks are underway between Tokyo and Delhi on enhancing cooperation in 5G, cybersecurity and telecommunications (including submarine system cables).

Importantly, the digital partnership is based on shared values and views on a new digital society, the need to build digital infrastructure together with social system and industrial platforms that promote trust amongst engaged stakeholders, improve services, and realize economic and social development across the world.<sup>9</sup> Shared values and convergence over China's growing regional presence, including in the tech domain, have pushed India and Japan to reach new levels of strategic convergence. In the digital field, these shared values take the shape of open access, digital sovereignty, and cybersecurity.

In November 2020, both countries revisited their S&T collaborations to discuss new opportunities, particularly in digital infrastructure. In March 2023 for instance, Nippon Telegraph & Telephone (NTT) has announced new investments amounting to US\$500 million annually over four years in India's data processing, renewable energy and communications infrastructure. This is in addition to about US\$800 million already invested in ICT infrastructure.<sup>10</sup> At the same time, alongside 5G and fintech, India also recognizes Japan as a potential strategic partner in creating AI and deepening tech collaborations in space and defense.

## **Persisting Gaps**

Although an important aspect of the India-Japan bilateral, there remains much to be achieved for the IJDP to achieve its true potential. For one, while ICT has been a strong area for joint work, activities in critical and emerging technologies like AI, robotics and those in the space and defense domains remains limited. A Georgetown University think tank report found that India-Japan AI-related publications and investment are notably limited compared to India-U.S. and Japan-U.S. collaborations. In fact, both have greater AI investment linkages with China than they do with each other.<sup>11</sup>

Further, although both states have built a strong strategic, comprehensive, and global partnership that has emerged as an axis in Asia, the global element of their relationship remains somewhat underexplored. However now, at this critical juncture, India and Japan have a strategic opportunity to improve their own position in the emerging world order by working more closely together to position themselves as net positive assets in the global system.

### **Way Forward: Co-creation, Co-production, and Co-innovation**

Technological competition has become the primary mode for U.S.-China relations, causing Indo-Pacific middle powers to calibrate their policies to the new geopolitical circumstances. This gives regional middle powers—including India and Japan—narrower strategic space for maneuverability; to exercise greater agency amid such a landscape, middle powers must find new and innovative ways to evolve their policy thinking. Greater collaboration will be critical in this regard. As China's high-tech authoritarianism—evidenced by its development and export of technologies that enable surveillance and repression—becomes a greater challenge for both India and Japan, technology must become a more prominent part of their bilateral cooperation in domains like defense research, space exploration, and digital economy.

To address the gaps and build the IJDP into an influential axis in the Indo-Pacific and beyond, Delhi and Tokyo must take quick action on the following:

Both countries must accord greater focus on *technology and talent transfer*. This discussion must also extend to exchange and development of talent and deeper people-to-people ties and industrial linkages in the tech sector. India can benefit from Japan's expertise in advanced technologies, while Japan can leverage India's skilled workforce and large market. Both countries can explore opportunities for technology transfer and joint technology development. This could include setting up joint ventures, licensing agreements, and technology partnerships. While several steps have been taken in this direction, more industry-to-industry events and regular seminars to help Japanese industries acclimatize to working with Indian talent, and Indian workers understand the Japanese work environment, can be beneficial.

Another key area of focus must be *embedding technology in defense relations*. This will include not only defense research but also space exploration and cybersecurity.

Both India and Japan are digital middle powers. While Japan is recognized as a second-tier power in sectors like cloud services, blockchain and AI, but a third-tier power (alongside India) as a cyber power.<sup>12</sup> Although both countries are keenly aware of the cyber threats they face, they have not yet made sufficient progress on developing their cyber doctrines and policy in anticipation of such threats. Efforts are underway in both countries—such as via Japan’s NSS and India’s cybersecurity directives (2022)—however there is a clear and urgent need for a more holistic approach. Here, greater interactions between India and Japan, including via the Quad framework can be critical. The U.S. is eager to bolster India and Japan’s technological capabilities to strengthen the Quad’s presence with respect to China; greater cooperation on critical technologies within the grouping can be essential.

Over the last decade, Japan’s effort to co-produce an amphibious aircraft in India failed, as did Delhi’s effort to acquire Japanese submarine technology. In 2015, India and Japan signed an MoU on defense equipment and technology. However, the first export under this agreement was only finalized in 2022, with Japan announcing its intent to export stealth antennas to India to further encourage reduced reliance on Russia.<sup>13</sup> While projects on high tech defense systems like UAVs, anti-drone systems, robotics, underwater communication systems, and Li-ion battery technologies have been a part of the discussions, they remain under consideration with no action taken. Japan remains highly interested in participating in India’s self-reliance initiatives through co-development, co-design and co-manufacturing.<sup>14</sup> One potential area for such defense tech cooperation could be on developing indigenous fifth generation stealth fighters and future generation naval vessels and submarines.

India and Japan must collaborate to put forth their preferred framework on issues like open internet and disruptive technologies (like AI), to shape the future model of *digital governance*. This will not be a low-hanging fruit as India and Japan continue to share several differences; for example, while India’s Personal Data Protection bill proposes stringent data localization clauses, Japan stands strongly for free cross-border flow of data.<sup>15</sup> However, regular discussions to reach common ground and coordinate strategies to actively shape a fair, transparent, and equitable global framework on technology. Such discussions should involve other key middle powers like the EU, which can help achieve more convergence. As the U.S. and China compete for primacy in the arena, it is vital that India and Japan lead efforts to prevent any single state

from dominating and promote a governance model that represents the interests of middle power and small states.

Lastly, the IJDP must look to evolve and incorporate a *global dimension*. In the Indo-Pacific, this can take form via joint outreach to help low-income states develop and strengthen their digital infrastructures. Both countries need to evolve their strong bilateralism to enlightened (or renewed) multilateralism and issues-based trilateralism. Until now, India-Japan collaborations for digital infrastructure have been limited. The Asia-Africa Growth Corridor, for instance, is all but at a standstill. Yet, as both countries seek to build an indigenous Indo-Pacific axis, they must visibly step up their efforts to support digital infrastructure in the region, particularly in Southeast Asia, South Asia, Indian Ocean littorals, and Africa. Some key activities could include providing more ICT financing, providing joint training programs, bolstering R&D through greater interactions between scientists and engineers, transferring technical knowledge (particularly in domains like smart cities, AI, robotics and clean energy). Beyond the region, a global IJDP could take shape via greater trilateral interactions and coordination with middle power partners (like France, and the EU at large).

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## IV. FORGING FORWARD THE INDO-PACIFIC CONNECT





# 11

## *Fostering Integration: Japan, India, and the Bay of Bengal*

*Jagannath Panda*

### **Introduction**

In March 2023, Japanese Prime Minister Fumio Kishida’s “policy speech” outlined his new plan for a “free and open Indo-Pacific” (FOIP).<sup>1</sup> Not only was India reiterated as Japan’s “indispensable partner” but the Bay of Bengal-Northeast India was specifically highlighted as a “single economic zone” where India-Japan cooperation is bound to foster “multi-layered connectivity”—a core element of FOIP vision—in the coming years.<sup>2</sup>

Such “like-minded” cooperation is imperative given China’s prowess as a stronger naval power that is intent on usurping India’s dominance in the Indian Ocean Region (IOR) and a veritable economic investor across the Bay of Bengal region. For example, China’s maritime, military, and economic ties with countries in the region like Bangladesh, Thailand, and Myanmar bode ill for the FOIP.

Importantly, the China-Myanmar Economic Corridor (CMEC)—a Belt and Road Initiative (BRI) project that links the Yunnan province (the so-called “gateway to South and Southeast Asia”) to the IOR via Myanmar—is a key feature of growing

Chinese clout. The strategic importance of the CMEC does not lie in just isolating or surrounding India (the CMEC to the east and the controversial China-Pakistan Economic Corridor [CPEC] to the west are seen as aspects of the “string of pearls” strategy) but in destabilizing an already unstable and one of the least integrated sub-regions—the latter goal inherent in the dubious BRI ethics.<sup>3</sup>

However, a vital area where progress remains slow but is particularly needed is India-Japan cooperation with respect to third countries. On the plus side, a slow momentum has been visible in India-Japan cooperation with regard to the Indian Ocean countries, the Middle East, African countries (via barely developed initiatives like the Asia-Africa Growth Corridor), and Southeast Asia.<sup>4</sup> Unexplored outreach in Northeast Asia is also compelling, especially amid this year’s increased nuclear threat from North Korea.<sup>5</sup> Importantly, their existing lackluster regional cooperation has impacted their “global” partnership, which is yet to fully develop and is sorely needed.

Hence, the burgeoning bilateral must now translate former Prime Minister Shinzo Abe’s—a leading architect of the Indo-Pacific construct—“broader Asia” vision. Extending India-Japan joint projects to the Bay of Bengal countries and, eventually, the Southeast Asian states is key to closing the aforementioned lacuna.<sup>6</sup>

Thus, this chapter aims to examine the following aspects:

- (1) Can the Bay of Bengal emerge as a preferential zone of third-party cooperation?
- (2) What are the most viable third countries in the Bay of Bengal region for such a purpose?
- (3) How can the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC, comprising Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand) be factored within India-Japan cooperation as a multilateral agency?

### **Building Regional Bridges, Tapping Cached Potential?**

The Bay of Bengal is a promising zone for Japan and India to focus their cooperation, as is evident from Kishida’s aforementioned policy speech on the new FOIP. Besides the China threat, the reasons are multi-fold: The region holds untapped potential for

economic and security integration because progress towards these priorities has remained severely limited—worryingly, it is contended that the Bay of Bengal littorals are “less integrated today than they were fifty years ago”.<sup>7</sup> Some developments in the physical infrastructure have led to better connectivity, but the overall prioritization of the region and cooperative behavior among the regional countries have remained on the back burner. The lack of political will combined with rising geopolitical tensions has fuelled connectivity gaps.

Nevertheless, the strategic location of the Bay of Bengal—a triangular embayment connecting the Indian and Pacific Oceans with access to choke points like the Strait of Malacca—in an era where the multipolar world order is in transition and the Global South is a new buzzword, has prompted new attention. Realizing the strategic threat from China, all major and middle powers including the European Union (EU) and its members, the UK, the U.S., Vietnam, Indonesia, and Australia are seeking to strengthen their foothold in the wider Indo-Pacific. So, a movement towards (sub)regional integration has been reinvigorated. The Bay of Bengal features prominently because of its centrality and heritage as a region linking South and Southeast Asia together.<sup>8</sup>

Notably, for all these powers influence over the region has implications for freedom of navigation as well as securing the world’s most important energy and trade routes, as it is a transit zone for maritime trade, including energy and raw materials, crossing the Strait of Malacca (e.g., in 2016, almost 80 percent of China’s oil imports passed via this strategic choke point).<sup>9</sup> The compulsion to control and secure the abundance of untapped natural resources, including hydrocarbons, is an added draw.

China’s aggressive posturing and penetration via BRI connectivity projects have certainly provided momentum to powers like India and Japan to reconfigure their priorities regarding the region’s development concerns. Importantly, China has been investing in a network of oil and gas pipelines, ports, roads, and rail links through its multi-billion-dollar CMIC in a bid to bypass its “Malacca Dilemma” and create alternative routes to reduce vulnerability.<sup>10</sup>

For India, the region’s traditional security provider, China’s outreach in the wider IOR does not bode well for the already simmering Sino-Indian tensions. For Japan, too, the dependence on maritime trade and securing sea lines of communication is

imperative at a time when it is sharpening its stance against the Chinese threat, evidenced by Japan's recently released National Security Strategy and Japanese companies exiting China due to spiraling China tensions.<sup>11</sup>

A potential minilateral collaboration that could greatly benefit the region's integration is through the India-Japan-ASEAN cooperation, as both India and Japan are seen as long-standing, trusted partners in South and Southeast Asia.<sup>12</sup>

In such a scenario, a "scramble" for influence via investments and developmental projects is a given.<sup>13</sup> However, India's revitalized efforts via Modi government's Neighbourhood First and Act East Policy in its traditional stronghold, in tandem with New Delhi's long-standing and continually growing convergence with Japanese interests, have the potential to edge out the competition.

### **Outlining Major Converging Initiatives**

Among the various connectivity projects headlining the region, Japan's Expanded Partnership for Quality Infrastructure (EPQI) aims to further its FOIP vision. Japan intends to deepen its engagement with the Bay of Bengal and like-minded partners through projects that promote connectivity, particularly through supply chains.<sup>14</sup> Moreover, as a long-standing Official Development Assistance (ODA) provider that focuses on sustainable means to ensure infrastructure connectivity, Japan provides a sharp contrast and viable alternative to the corrupt and debt-inducing BRI development.

In this context, Japan's International Cooperation Agency (JICA), which coordinates ODA activities for the Japanese government, has been promoting infrastructure projects in the Bay of Bengal for decades. One of JICA's main projects, established in 2014, has been the Bay of Bengal Industrial Growth Belt ("BIG-B") to accelerate socio-economic and industrial development in Bangladesh, drawing from Japan's domestic experience of transforming its industrial landscape via its "Pacific Belt" policy.<sup>15</sup> Japan has also launched a Joint Study Group on the possibility of an Economic Partnership Agreement with Bangladesh.<sup>16</sup> For Bangladesh, which has been seeking to reduce its overdependence on China, Japanese investment is an attractive "quality" alternative, a stance shared by many regional powers.

Further, Japanese projects have focused on building optic fiber cable-enabled communication across the Bay of Bengal and large-scale infrastructure, such as the \$3.7 billion Matarbari port in Bangladesh and a \$200 million container port in Myanmar.<sup>17</sup> Japanese companies are also involved in regional projects; for example, in 2017, Mitsubishi and Sojitz Corporations partnered with Petronet, India's top gas importer, to develop an LNG terminal in Sri Lanka.<sup>18</sup> Japan is also looking to expand cooperation with renewable energy projects in the near future.

As regards India, their strong strategic partnership has allowed Tokyo privileged access to establish infrastructure projects in the Andaman and Nicobar Islands and India's Northeast—regions where India is notoriously hesitant to open to foreign investment.<sup>19</sup> Japan's efforts in the wider region indirectly benefit India too, which gets greater connectivity access, particularly those linking its Northeastern states to Southeast Asia.

At the same time, their relationship in the Bay of Bengal is not as one-sided as it may appear. India has heavily contributed to development and investment within the Bay countries and has been creating opportunities for contributing to regional integration via Japan's assistance. For example, they have established the Act East Forum, which seeks opportunities for joint projects within states like Bangladesh.

Moreover, India is already an established security actor in the region, which allows Japan to strengthen its presence in the wider IOR. For example, the annual Malabar naval exercise hosted by India has included Japan since 2015 and the latest edition of the Japan-India Maritime Exercise (JIMEX) in 2022 consolidated their high levels of interoperability.<sup>20</sup>

### **Identifying “Third-Party” (Potential) Partners**

Between India and Japan, there is already limited corporate sector cooperation that has taken place with third countries. Bangladesh and Sri Lanka are the two important names among a few others. However, in the context of Bay of Bengal, the following countries could be key to promoting joint connectivity, economic and security initiatives in the region:

## ***Bangladesh***

Besides their individual projects, Tokyo and New Delhi are promoting joint investment in Bangladesh and India's Northeast by building an industrial value chain that will foster growth in the entire region. Kishida has highlighted the great potential of utilizing the combined strengths of Japanese technology, coupled with ODA support, and India's information technology expertise in such joint projects.<sup>21</sup>

Bangladesh has been a geopolitical focus point for multiple powers, yet India and Japan together can effect long-lasting changes: India-Bangladesh ties are witnessing a "golden chapter" through several pacts in infrastructure, energy, and water-sharing, among others; and Japan's investments in important projects like the Matarbari deep-sea port and power plant, metro rail, and the new terminal at its international airport have extended the stakes.

Bangladesh could also be an important target for future security cooperation, given its recent tilt towards the U.S.: Dhaka has drafted an "Indo-Pacific Outlook", albeit with a stronger economic focus.<sup>22</sup> Moreover, deepening relations in the Bay could be utilized to undercut factors like Beijing's emergence as Dhaka's top military hardware supplier.

## ***Thailand***

As a former chair of BIMSTEC, Thailand promotes a "Prosperous, Resilient and Robust, Open" framework that supports Japan's and India's FOIP visions.<sup>23</sup> Both India and Japan are seeing an upswing in ties with Japan, including in security and trade and investments. There is also potential for Thailand's future inclusion in joint initiatives as in the envisioned Asia-Africa Growth Corridor that has not moved forward. Moreover, if India's plans to extend the India-Myanmar-Thailand Trilateral Highway [IMTTH] to Cambodia, Lao PDR, and Vietnam shape up, Japan could play a crucial role. In 2018, when India had initiated a preliminary survey for rail connectivity parallel to the IMTTH, Japan had indicated its interest in the project.<sup>24</sup>

## ***Sri Lanka***

Sri Lanka faces significant internal economic and political challenges that are disruptive for the wider region. Yet its importance as a center of the geopolitical struggle between

China and India has not faded, which highlights its strategic value. China's investment into Sri Lanka's Hambantota port and its subsequent 99-year lease (starting 2017) sparked concerns of debt trap diplomacy and infrastructure development to eventually serve Beijing's military motives of IOR control.<sup>25</sup>

Japan, too, has been concerned over the rising Chinese influence in several connectivity projects, but the economic collapse may turn the tide in Japan and India's favor. For example, in March 2022, Sri Lanka and India agreed to develop a solar power plant, while a contract with a Chinese company for a wind farm was cancelled.<sup>26</sup> Overall, New Delhi and Japan, as significant lenders/financers, can offer Sri Lanka an alternative path of "quality" investment, particularly in renewable energy projects.

### ***Vietnam***

Although Vietnam is not a Bay littoral, it is a "natural partner" for Japan and India's joint vision for the subregion. Its proximity to the South China Sea has generated interest from major powers looking to secure their interests in the Indo-Pacific. Moreover, increasing foreign investments, especially after the COVID pandemic, have made it integral to international supply chains.<sup>27</sup> One major reason is that production/manufacturing has been moving away from China into neighboring Southeast Asian states like Vietnam.

In addition, India, Japan, and Vietnam share concerns about China's maritime and territorial assertiveness. And in the recent past, Japan-Vietnam (e.g., naval joint exercises, defense gear and technology transfers) and India-Vietnam (e.g., logistics support pact) security cooperation has spiked. Importantly, all three advocate for inclusiveness that would enable the fostering of connectivity and growth across the Bay of Bengal region as a whole.<sup>28</sup>

### **BIMSTEC: A Viable Mechanism?**

Despite the presence of multiple mechanisms in the wider IOR, supported by India, such as SAARC (currently in limbo due to Indo-Pakistani tensions), Bangladesh, Bhutan, India, and Nepal (BBIN), Indian Ocean Rim Association (IORA), and ASEAN, BIMSTEC is one of the most promising avenues for Japan and India.<sup>29</sup>



Primarily because of its viability as a linkage to India's Northeast, where India and Japan have already agreed to enhance cooperation, besides the forum comprises smaller states that are vital for deepening the region's integration. Regional multilateralism through the BIMSTEC could also enable greater limitations on major powers. Thus far, however, the framework has failed to make much progress.

However, Indian Prime Minister Narendra Modi has been prioritizing BIMSTEC in recent years by holding bilateral talks with members and pledging US\$1 million towards the operational budget at the March 2022 summit.<sup>30</sup> The latest adoption of the BIMSTEC charter and increasing the capacity of its secretariat will institutionalize the forum, fulfilling the demands of members like Nepal that had lamented the "pace" of cooperation and lack of "clarity" in vision.<sup>31</sup>

Since Japan has strong economic and strategic relations with the BIMSTEC countries, the "BIMSTEC plus Japan" is an ideal way to enhance regional integration as well as strengthen the democratic balance.<sup>32</sup> Moreover, considering Japan and India fully support ASEAN centrality in their FOIP visions and BIMSTEC is closely connected with ASEAN via Myanmar and Thailand, such a plus association could only complement the wider region's growth.

At the same time, BIMSTEC also appears marred by issues that are confronting ASEAN, too. For example, Myanmar's participation since the military junta took power has been a thorn in the side of these forums. Besides the U.S. opposition and the negative optics generated by the junta's participation, the debilitating humanitarian situation in Myanmar has deemed these inclusive regional forums toothless. Yet, China's clout with the junta and the need to involve all member-states for the success of cooperation activities makes Myanmar's involvement a necessary evil.

## **Policy Recommendations**

1. Japan and India need to prioritize collaborative mechanisms with specific states (e.g., Bangladesh, Thailand, Sri Lanka, and Vietnam) that hold the greatest potential strategically and economically. It would be an added incentive if such states have long-standing relationships with both India and Japan, allowing them an edge over China. In other words, fostering trilateral cooperation involving these states could be a strategic priority for India and Japan.

2. Climate action/climate security in the Bay of Bengal, which is home to powerful storms and is one of the most vulnerable regions vis-à-vis climate change, is a potent area where regional cooperation should be enhanced at the earliest. A roadmap should be developed to aid the Bay littorals in preventing overfishing or exploitation of resources by extra-regional powers particularly.
3. Maritime security cooperation should be enhanced, including naval exercises with partner states in the Bay of Bengal.
4. The new Australia-India-Japan-cofounded Supply Chain Resilience Initiative (SCRI) is a perfect forum to involve Bay of Bengal partner states and forums like BIMSTEC to build alternative supply chains, wherein global reconfiguration is ongoing.
5. ASEAN should be incentivized to pursue cooperation in select fields like climate action and infrastructure development.
6. Efforts must also be made via engagements with global initiatives such as the EU's Global Gateway, which is looking for expanded local cooperation in the IOR. Involving credible extra-regional stakeholders like the EU will act as an incentive for the littorals, too.

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# 12

## *India-Japan 'Plus' Framework: Productivity and Stability in the Indo-Pacific*

*Dattesh Parulekar*

India and Japan are veritable arch-pillars of the Asian maritime axis; however, what would it take for them to constitute the fulcrum of the Indo-Pacific strategic order? New Delhi and Tokyo concur over long-term political, economic, and security objectives, anchored in rules-based sovereign actions and pluralism; however, why is their immediate strategic engagement high on formulation but relatively underwhelming in exuding actionable convergence in shaping the strategic narrative and driving the innovating multilateral firmament across the Indo-Pacific expanse? Despite growing bilateral relations steeped in trade and investment, why hasn't this potentially 'scale-skill' mating and 'innovation converging' compact of vibrant democracies translated into a cogent sub-regional and pan-Asian partnership, in the democratized, inclusive and sustainable provisioning of beneficent public goods? The 'India-Japan' twinning is a coveted proposition for the multitude of rising middle and established major powers, both resident in the Indo-Pacific and extra-territorially in-ingress, but is this proliferating plurality of India-Japan reposed minilaterals, simply an exercise in tactical posturing or a definitive harbinger of strategic alignment by like-minded sovereigns in forging a robust, cohesive and enduring alternative that impugns a predatorily ascendant China?

There is no gainsaying that intense competition is underway for winning hearts and minds and acquiring strategic depth, through the credible and tangible provisioning of public goods in the Indo-Pacific; a schema that pits Chinese hegemonic expansionist forays vis-à-vis the democratic and pluralist constellation of Indo-Pacific sovereign actors. The sprawl of the Chinese-pioneered Belt and Road Initiative (BRI), in particular its maritime flank the Maritime Silk Road (MSR), has arguably carved up the region in consonance with Chinese strategic objectives, which, given the principles undergirding it, are detrimental to the sovereign interests of key players as also to security, stability, and the wider beneficence of the region. Furthermore, Beijing is widely seen as at the vanguard of the normative and operative reframing of the region, driving mercantilism, hard and soft infrastructure-build, regional connectivity, and economic cooperation, etc., thereby reshaping the balance of power in its favor. A rebalance, through a quintessentially extra-territorial centric response (i.e. U.S.-led) would simply render big-power competition more trenchant, besides not adequately accounting for the region's innate aspirations and equities, all of which behoves that a deepened and expanded 'India-Japan' partnership be at the core of any such strategic riposte.<sup>1</sup> Notwithstanding annualized bilateral summits that proffer strategic guidance, the 2015 delineated India-Japan 'Special Strategic and Global Partnership' has witnessed progressive elevation in normative and institutionalization terms, through seeding of the bilateral Defense Policy Dialogue, the inking of the landmark logistics security compact (ACSA), and the iconic 2+2 consultative framework,<sup>2</sup> capped off by PM Kishida's recent unveiling of the new Indo-Pacific strategic vision in tow with what Tokyo describes as its "indispensable partner", New Delhi.<sup>3</sup> However, the task is cut out in imparting productivity to conversational and ideated forums, such that India-Japan synergies can constitute the critical mass for the region's strategic stabilization.

### **India-Japan led Minilateralism**

Time is nigh, in not simply commandeering a reactive push-back against incompatible Chinese assertions, but in engineering a credible offering of positive outcomes, on a raft of regional issue portfolios, of existential equity for sovereign stakeholders, across stratifications of national power. And herein, there are instructive lessons for why the U.S.-led 'Quad-Plus' gambit turned out to be stillborn even as the conception and

construct of 'Quad-Plus', remains most germane. At a time of increasing interconnectedness and interdependence, and amidst the vagaries of a VUCA world, there is little traction for polarizing coalitions, 'zero-sum' concerts and exclusivist constellations. The trick lies in nesting slick informal collectives, coalesced around consensual principles of democratic accountability, transparency, inclusivity, and sustainability, but without the fetters of institutionalism; one that allow constituents to pursue national interest premised alignments sans constraints on strategic autonomy and choice diversity.<sup>4</sup> However, for such collectives to be material, they have to go beyond being talk-shops and posturing by embracing actionable dynamism, harmonization, and integration of deliverable systems.

The dint of the overwhelming number of pan-Indo Pacific minilaterals and plurilaterals, either hemming in the duo of India and Japan or incorporating either of the protagonists, lends credence to the notion that pathways to peace, security, stability, and prosperity in the region lead through them. The multitude of European powers with their individually crafted Indo-Pacific strategies (UK, France, Germany, Netherlands, etc.), rising powers within ASEAN (Vietnam, Indonesia, the Philippines), Gulf monarchies (UAE) seeking insertion into the Indo-Pacific dynamic, and cartographically reimagining middle powers (Australia) are proactively courting the New Delhi-Tokyo duet, and situating it at the center of their strategic realignments and calculus of national development and national security. What makes the India-Japan twinning a prudent and enduring strategic option is the organic acceptability that stems from the compositeness of their benign profile and orientation, yet also the attractiveness that emanates from the interaction of their differentiated ecosystems.<sup>5</sup> The attributes of shared and variegated core-competencies and experiences potentially contribute to shaping democratically consultative, fiscally prudent, ecologically sentient and rigorously validated initiatives, constituting 'higher-order' propositions for quality and sustainability desiring suitors.

If Japan is an exquisite project exponent, India carries the democratic and non-imperiling legitimacy to chime, attributes that are critical to fostering regional sustainable development. What's noticeable is that sovereign actors within and outside the Indo-Pacific commercially and industrially segued with China, be it a Vietnam or a Germany, an Australia or France, an Italy or Indonesia, are actively courting the New Delhi-Tokyo duet, in functional collectivization formats.

## **'Triangular Development Cooperation'**

Since the advent of their 2+2 dialogue framework in 2019, India and Japan have underscored the significance of fostering third country predicated projects for wider sustainable development.<sup>6</sup> The credentials are very much there, with Japan's six decades long pedigree at project-based funneling of ODA whilst India has been a votary of developmental partnerships since 1950, albeit a more recent practicing exponent. While initial forays across specific coordinates such as Bangladesh, Myanmar, and even Sri Lanka are visible, the visage of India-Japan actions-in-concert are sporadic and pockmarked to say the least.<sup>7</sup> The grandiose Asia-Africa-Growth-Corridor (AAGC) has faltered, since its pronouncement in 2017, and both sides have presided over individualized strategic development projects in third countries and sub-regions of mutual interest, when collaboration may have been the optimal and no-brainer course of action. This said, the prospectively proliferating trifecta minilaterals should become forums and mediums for instrumentality of Triangular Development Cooperation, given the geographical span and 'finance-technology-logistics' wherewithal that's pooled in the remit of such like-minded cohorts.<sup>8</sup>

Three clusters of third country project development could be collectively fashioned, in conjunction with designated sovereigns, as part of Triangular Development Cooperation, drawing on principles enunciated in India's delineation of the 'SAGAR' (Security and Growth for All in the Region) doctrine of 2015. The primordial trajectory of third country development projects ought to take the form of national interests' preservation of minilateral constituents, benchmarked against considerations of energy and trade security, presupposing strategic action to safeguard the integrity and plurality quotient through advancing a rules based maritime order.<sup>9</sup> A second strand should showcase full-on strategic capacitation of the project-basing country, adducing the argument of mainstreaming hitherto nondescript coordinates, such as the bevy of Small Island Developing States (SIDS) and sub-regions marginalized from growth and development processes. The third vertical must be anchored in an accent of socio-economic inclusion, intimately aligned with the UN's SDGs Agenda 2030. Such investments would be unique, in terms of their local community connect, would allow for grassroots transfer of curated experiences to the project receiving country, and further cooperation over the global commons.



## **Reboot of India-Japan Plus Compact**

The India-Japan partnership is uniquely positioned—the Japanese skill of operation meeting with the Indian scale of the challenge and proposition. This explains the nature of big ticket investments across India, most prominently in the realm of mass consumerism and urbanization solutions. The most recent defense dialogue, drawing on strategic guidance, has focused on imparting a qualitative streak to the bilateral relationship, with exhortation to joint initiatives across high-tech manufacturing, new age industrialization, digital infrastructure, incubating critical and emerging technologies innovation, pioneering research and development in domains ranging from defense to health, agriculture to renewable energy, and cyber-space to information to deep-oceans, besides curated forms of skills-based human resource development.<sup>10</sup> While accomplishing this ambitious agenda is down to actionable private sector collaboration and an enabling framework by governments, what drives geopolitical and geo-economic competition in the Indo-Pacific invariably and inevitably pits China and its unilaterally enjoined, debt-ridden model vis-à-vis the paradigm of the democratic rest.

New Delhi and Tokyo may not have it in them to engineer and spearhead the stakeholder centric engagement underpinned by a solutions-based approach to product, governance, and process based stresses, all of their own accord. But such heavy-lifting is in the realm of possibility when collectivized with like-minded peers, avid enough to own their equities in the Indo-Pacific. The Quad's 2021 announcement of manufacturing and dispense of a billion vaccine doses, through leveraging competencies of each of the quartet of democracies, was an important marker for what collectives can achieve. Notwithstanding, India has partaken with Norway in the blue-economy and green-shipping spaces<sup>11</sup> and with Denmark in the wider maritime development sphere,<sup>12</sup> even as it explores fin-tech collaboration virtues with the United Kingdom<sup>13</sup> and the Netherlands, defense manufacturing and solar energy cooperation with France, conventional energy and food security capacity building vide the UAE,<sup>14</sup> disaster resilient infrastructure coalition with the U.S.,<sup>15</sup> not to mention the responsible harness and ocean health initiative of the IPOI, which has a solid buy-in from ASEAN member-states. Tokyo is neither a stranger to any of the aforesaid mentioned interlocutors, nor any of the above averred products, governance, and process slivers. Japan's deep investments across the ASEAN straddle, its leavened public goods provider

role within the Greater Mekong Sub-Region, its avowed commitment to similar provisioning within the South Pacific Island States, and its evinced interest and involvement with community based projects across Eastern African littorals, through the longstanding TICAD framework, implies a certain latitude for an India-Japan Plus construct, to spawn and grow on the dial. What is much vaunted is for greater intersection between strategic conceptions on either side, such as the 'Act East' and 'Neighbourhood First' constructs with the EPQI frameworks, for coordinated projects across the Mekong Sub-Region, the South Pacific Islands, the Indian Ocean Island States, and wider Western Indian Ocean milieu, devolving to line-ministries and technical-level cooperation.

The India-Japan Plus process has potential traction in the wake of the pandemic, which is still throwing up unforeseen challenges. The 'lives and livelihoods' dialectic is compelling and almost universally acclaimed and affirmed as the basis for a rebooted political economy and socio-economy. Securitization of sectors such as health, food, energy, digital public infrastructure, and human resource development, necessitate transnational outlays, output, and outcomes, which can be optimally addressed through functional and actionable collectivization of proficient member-states.<sup>16</sup>

## **Conclusion**

Even though the high degree of convergence is often averred to in the bilateral context, closer scrutiny reveals as to what bedevils and inhibits the potential of the India-Japan compact. While Japan joins the other Quad members in strident castigation of Chinese truculence towards Taiwan, India chooses to formulate and articulate its critique, distinct from the cohort. Tokyo joins with peer G7 members in denouncing Russian belligerence against Ukraine, while India's conviction lies in preferring even-handedness and an underscoring of dialogue over diatribe. Japan continually nudges India to see reason in incorporating within the RCEP fold, even as New Delhi is clear-eyed about the existential down-sides to its mercantile interests. Tokyo and New Delhi aren't in communion over the trilateral SCRI twinning with the ASEAN.

This said, Prime Minister Kishida's newly minted Free and Open Indo-Pacific Plan appears to strike the right chords. While stressing the normativity of an equitable approach, citizenry focused, consultative rules of engagement, etc., he also advocated

for strategic operationalization of the ODA mechanism, greater collaboration of public and private sector entities for designated fund utilization, and creative and competitive forms of project envisioning and financing routes, to accomplish among other things, multi-layered connectivity, with ASEAN as the proverbial ground-zero.<sup>17</sup> New Delhi and Tokyo are both avowedly committed to ASEAN Centrality within the Indo-Pacific, and could leverage their indigenous strategic axis with the curated involvement of European partners for shaping a stakeholder-centric inclusive and sustainable paradigm, in pursuance of productivity and stability.

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# *Conclusion*

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## **Summarizing India-Japan Ties**

Over the past two decades, India and Japan have sought to build a strong, comprehensive, and global partnership. Their shared vision of peace, stability, and shared prosperity, as well as their shared democratic values and commitment to the rule of law underpin their global partnership. In other words, over time, India and Japan have built a strong partnership predicated on broad convergence over their long-term political, economic, and strategic interests and aspirations. They recognize each other as fellow partners that bear the responsibility of—and have the capacity to—respond to regional and global challenges. In this context, building a stronger partnership that is increasingly prosperous and dynamic is an important strategic priority for both states.

Overall, the India-Japan partnership has three layers of cooperation. Firstly, at the bilateral level, both countries are continuously working to ensure the holistic and comprehensive development of their relations. Secondly, at the regional level, Tokyo and New Delhi are engaged in several dialogues and collaborative projects that are geared toward securing peace, stability, and prosperity in Asia and the Indo-Pacific. Here, their shared commitment to democracy and development is driving factors in their quest to shape regional architecture. Thirdly, at the global level, both countries are gradually enhancing cooperation in areas like environment, energy, technology, security, and non-proliferation by building on their existing strategic convergences. The forward-looking partnership further encompasses areas like security, trade and

investment, resilient supply chains, clean energy, and critical technologies—all of which are identified as important areas requiring greater collaboration.

The strategic partnership has often been sub-regional specific. For instance, while much of their developmental cooperation was concentrated on Northeast India initially, it has gradually moved to encompass the entirety of India, with joint developmental projects ongoing across the country. Now, the partnership is expanding to Southeast Asia, with both countries engaging in collaborative endeavors with the Association of Southeast Asian Nations (ASEAN) states, especially in terms of connectivity and quality infrastructure. Nevertheless, India and Japan have not yet acquired an Indo-Pacific characteristic. Even though the strategic orientation of their global partnership has often focused their shared commitment to a free, open, and inclusive Indo-Pacific region, their cooperation with small states in sub-regions like the Indian Ocean Rim and the Pacific remains notably limited. Yet, as major Asian players and key responsible powers of the Indo-Pacific, the opportunities (and the potential) for their relationship to become stronger, more comprehensive, and more dynamic remain immense.

This publication covers the varied and diverse aspects of the India-Japan global partnership, namely the convergence of their strategic essence, prospects of enhancing economic security particularly in trade and investment, promotion of energy security and technological or digital innovation, and harnessing an increased Indo-Pacific connect. In each area, the publication provides practical and implementable policy recommendations that could help guide leaders and policymakers in the both countries to accelerate the development envisioned in the India-Japan “Special Strategic and Global Partnership.”

## **Policy Recommendations**

The following are the three key overarching areas where enhanced cooperation or outreach efforts must be explored further:

### *Strategic Coordination*

Early this year, Indian Prime Minister Narendra Modi fittingly began India’s G20 presidency by highlighting to the world at large the disproportionate debilitating

impact of health, climate, and geopolitical crises, particularly the ongoing Ukraine war, on the Global South: On January 12, 2023, at the opening session of the “Voice of Global South Summit 2023,” he warned against excluding the people of Global South from “the fruits of development.” Instead, he listed a constructive agenda,

“Together we must attempt to redesign global political and financial governance. ... Recognize that the principle of ‘Common but Differentiated Responsibilities’ applies to all global challenges. ... Reform international institutions, including the United Nations, to make them more relevant.”

In January Japan’s Prime Minister Fumio Kishida, too, began the country’s G7 presidency by emphasizing the pressing need to include the diverse Global South voices in international arenas and cooperation engagements to build the “next international order.” Kishida’s remarks, whose congruence with Modi’s speech at the Global South Summit seems fortuitous, reveal the underlying synergy between the two longstanding partners, not only within the realm of common fundamental values such as democracy or strategic tie-up but also in creating a rules-based inclusive and diverse global order that is cognizant of the needs of the smaller developing or poor states.

Undoubtedly, India is one of the leading voices of the Global South, and will play an important role in (re)shaping the world order. As per the latest United Nations (UN) estimates, India is set to surpass China in terms of population in mid-2023; while other international reports have predicted that India may overtake Japan in gross domestic product (GDP) around 2030, to become the world’s third-largest economy.

At the same time, both India and Japan heavily depend on China as the largest trading partner and will continue to rely on China economically for the foreseeable future in spite of limited “decoupling” in cutting-edge technologies caused by political confrontation.

The Ukraine invasion by Russia has added another dimension to the already divisive geopolitical arena, particularly in the Indo-Pacific. While Japan has concretized its distancing from Russia through economic sanctions, China has solidified its “no limits” partnership with Russia, even as the prospects of a Sino-Russian genuine alliance remain somewhat negligible. India is somewhere in the middle of this spectrum.

India has been a historical partner of Russia and has maintained a close relationship in the midst of the war in Ukraine through trade (e.g., military equipment, crude oil, natural gas, and fertilizers) despite pressure from the West and its allies like Japan. Yet, India's increasing hostility with China and Russia's growing dependence on China are pushing the limits of India's "diplomatic neutrality" with Russia, not to mention the heavy toll the protracted war has taken on the developing world.

Under such circumstances, it is critically important for India and Japan to coordinate their comprehensive strategies in all areas of policymaking, from the diplomatic to the security or defense aspects. A key point to remember here is that the both countries must navigate the need to *stand up to China* and *get along with China* at the same time. As such, the two sides should have regular multi-layered meetings both at the level of the public sector and the private sector. They must also strengthen and further the channels of multi-track diplomacy to gather information and generate awareness to counter the disruptive efforts of China to alter the region's status quo.

Most importantly, in 2023 as respective chairs of the G20 and G7, India and Japan have an opportunity to create a conduit mechanism between the two global bodies for better facilitation of ideas and initiatives. This would be a game-changing integrating intervention for a world grappling with divisive agendas and seemingly insurmountable challenges.

### ***Global Supply Chain Networks and Development of Quality Infrastructure***

Japan, India, and Australia launched the "Supply Chain Resilience Initiative (SCRI)" in 2020, and the countries intend to transfer production facilities from China to other Asian countries in order to diversify and enhance supply chain networks. However, in spite of a huge amount of subsidies, this initiative has not achieved much success, since recipient countries lack sufficient infrastructure to receive such production facilities.

At the same time, significant efforts are continuing in the infrastructure domain. Particularly relevant are infrastructure investments into regional decarbonization efforts (e.g., power grids and clean energy supply chains) for enabling energy transition away from fossil fuels by the middle of the century. For example, on March 4, 2023,



Japan hosted the first ministerial meeting of “Asia Zero Emission Community (AZEC),” which includes Japan, Australia, and ASEAN countries (except for Myanmar). While India is not yet part of the initiative, New Delhi must look into joining the initiative in the near future to give momentum to its aim of reaching net zero emissions by 2070.

Similarly, the Indo-French venture of International Solar Alliance (ISA), which includes several European states and all the Quadrilateral Security Dialogue (Quad) members, is another global initiative that can hasten the renewable energy goals and propel investment in the coming years. As per an International Energy Agency (IEA) report, solar photovoltaic is the third largest renewable electricity technology behind hydropower and wind and is fast becoming the lowest-cost option for new electricity generation. The IEA has also commended the efforts of the ISA in accelerating energy access.

For all developmental purposes, including trade, connectivity, and climate action, quality infrastructure investments are essential. It is vital that India and Japan find ways to eventually enlarge their partnership to include greater cooperation with ASEAN countries, as well as with other like-minded countries such as the UK, France, Germany, and the U.S. in the Indo-Pacific in order to establish a new framework that resembles a configuration such as the “Regional Comprehensive Economic Partnership (RCEP) – China + India, EU, and US.” Given that India is not a part of the RCEP at present, both India and Japan along with the U.S. must look for opportunities on how to expedite the cooperation via the Indo-Pacific Economic Framework (IPEF).

In this context, the launch of IPEF (comprising most RCEP members plus India and the U.S.), which promises to counter the threat to supply shortages and overreliance on suppliers, among other aspects, is a good option for enhancing the constructive agenda. The European Union and its member-states could also benefit by engaging with the IPEF in the coming years.

Another relevant format is the Blue Dot Network (BDN), a global certification framework for quality infrastructure launched by Japan, Australia, and the U.S. in 2019. It envisions meeting the following “G20 Principles for Quality Infrastructure Investment”:

- 1) Maximizing the positive impact of infrastructure to achieve sustainable growth and development.
- 2) Raising economic efficiency in view of life-cycle cost.
- 3) Integrating environmental considerations in infrastructure investments.
- 4) Building resilience against natural disasters and other risks.
- 5) Integrating social considerations in infrastructure investment.
- 6) Strengthening infrastructure governance.

Moreover, the three BDN founding states have entrusted the Organization for Economic Cooperation and Development (OECD) to study details of the implementation based on the following 10 elements:

- 1) Promote sustainable and inclusive economic growth and development.
- 2) Promote market-driven and private sector led investment, supported by judicious use of public funds.
- 3) Support sound public financial management, debt transparency, and project-level and country-level sustainability.
- 4) Build projects that are resilient to climate change, disasters, and other risks, and aligned with the pathways toward 2050 net-zero emissions needed to keep global temperature change at 1.5 degrees Celsius within reach.
- 5) Ensure value-for-money over an asset's full life-cycle cost.
- 6) Build local capacity, with a focus on local skills transfer and local capital markets.
- 7) Promote protections against corruption, while encouraging transparent procurement and consultation processes.
- 8) Uphold international best practices of environmental and social safeguards, including respect for labor and human rights.
- 9) Promote the non-discriminatory use of infrastructure services.
- 10) Advance inclusion for women, people with disabilities, and underrepresented and marginalized groups.

(The above is quoted from Mr. Hiroki Sekine's "Global Initiative for Quality Infrastructure Investment and Supply Chain Resilience" March 22, 2023.)

These above features highlight that the BDN proposal has truly forward-looking, inclusive, and sustainable objectives, which makes for a compelling initiative even as the project was slow to take off. However, the BDN has made significant progress in recent years. The first test project under the BDN has been completed, and it may officially start the certification of quality infrastructure investments within this year. Investments under the BDN will be a quality alternative to China's Belt and Road Initiative (BRI), with financial transparency to avoid debt traps. At the same time, the BDN is also looking to make greater contributions to the region to help small states grapple with climate change. In this context, the BDN will eventually hold the ability to challenge the BRI's hold over the region.

However, for the BDN to successfully achieve such a position, the key is financing from the both public and private sectors. Japan Bank for International Cooperation (JBIC) is the strongest development bank in the public sector, and with its reimbursement guarantee, the private sector will be encouraged to make investments in quality infrastructure in low-middle income countries. Yet, to effectively compete with the BRI, there is a massive gap in financing quality infrastructure projects that needs to be met.

Certainly, India as a staunch critic of the BRI and a Quad partner should consider participation in the BDN. It has much to gain by becoming one of the beneficiaries of the BDN in terms of accelerating investments in quality infrastructure, which India lacks. On the other hand, Japanese companies can make use of the good business opportunities through the newly introduced "Production Linked Incentives," which will amount to Rs 1.97 lakh crore (US\$26 billion) for five years and will cover 14 critical sectors such as automobiles, advanced chemistry cell batteries, pharmaceuticals and drugs, telecom and networking products, and high-efficiency solar PV modules.

In March 2023, Prime Ministers Kishida and Modi agreed in New Delhi that they would target ¥ 5 trillion (US\$ 42 billion) of public and private financing from Japan to India from 2022 to 2027 with the aim of developing reliable, resilient, and efficient supply chains in the region. Therefore, the next five years will be crucial for India-Japan cooperation: How will the two countries enhance engagements under these interconnected frameworks so as to effectively stand up to the China challenge together in an efficient manner. Although India and Japan have been working together in supply chain and quality infrastructure, their collaboration in these domains has

not yet reached a regional or global scale. Moving forward, such engagement must be a priority.

### *Cooperation with Third Countries*

One of the most vital ways to provide momentum for building a stronger and more robust India-Japan Global Partnership is through third-country cooperation. Greater engagement should be encouraged in collaboration with third countries in the diverse regions of Asia, Europe, and Africa. In politically volatile regions such as South Asia, Southeast Asia, Central and Eastern Europe, or Central Asia, where their financial dependence on China has made them susceptible to debt traps or other forms of coercion, India and Japan must find ways to step up and create alternative mechanisms to enable these politically weakened or resource-rich countries to find balance and re-establish some semblance of sovereign control. In the Indo-Pacific, the conditions are currently ripe to enhance the regional relationship between India and Japan with the following partners:

#### *SINGAPORE*

Singapore as a financial hub located near the strategic choke point of the Straits of Malacca, through which a majority of the energy and goods trade to Northeast Asia transits, is a vital partner. Its relevance has also grown because it has been delicately balancing its U.S.-China ties, as well as pursuing unofficial yet multifaceted ties with Taiwan. In recent years its strategic relations with both Japan and India have strengthened, too; and Singapore's membership in the U.S.-led IPEF is another common area of interest. India and Singapore share economic and strategic ties, from a Comprehensive Economic Cooperation Agreement (CECA, due for an upgrade) to maritime exercises.

Similarly, Japan has a wide-ranging cooperation mechanism with this vital ASEAN state, from the economic partnership agreement to high-level diplomatic exchanges and multifaceted cooperation in non-traditional areas such as environment, biomedical research, and cyber-security; Singapore is also an AZEC member.

Through its Economic Development Board (EDB) and Enterprise Singapore (ES), Singapore can also be a conduit state (as a "One Stop Center") for facilitating

investment vehicles between India and Japan. Moreover, the “Infrastructure Asia (IA)”, established by the ES and Monetary Authority of Singapore, can help extend investments in Asia through financing, networking of private/public sectors, and provision of legal services by Singapore-based companies in partnership with Indian and Japanese companies.

Importantly, in the Indo-Pacific, the three sides can cooperate to strengthen supply chains, increase infrastructure connectivity and its security, promote technological innovation, and urgently explore avenues for climate action—being on the frontlines of the climate emergency, all three states are acutely aware that the existential threat, particularly to coastal regions, requires concerted efforts.

### **ASEAN**

Besides Singapore, which is an important individual partner, ASEAN and its members, particularly Indonesia, Vietnam, and Thailand, will be an integral part of both India and Japan in their quest for a “free and open Indo-Pacific” (FOIP). In Prime Minister Kishida’s 2023 policy speech that outlines his new plan for the FOIP, the importance of ASEAN as a central multilateral institution has been reiterated: Japan’s FOIP has steadfastly supported the ASEAN Outlook on the Indo-Pacific (AOIP) because of their shared respect for fundamental principles that promote peace and cooperation.

In his new FOIP plan, Kishida has not only expanded the scope of the Official Development Assistance (ODA) but also introduced Official Security Assistance (OSA) to enhance political/economic/security collaboration with developing countries, particularly in South and Southeast Asia.

As dialogue partners of ASEAN that have garnered attention as trustworthy middle powers in Southeast Asia to counter the ramifications of the U.S.-China rivalry, both India and Japan would do well to coordinate mutual strategies with respect to ASEAN. Given the growing success of minilaterals in the Indo-Pacific in recent years, the potential of establishing a trilateral cooperation mechanism among the three parties must be earnestly explored.

*BAY OF BENGAL LITTORALS*

In Kishida's latest FOIP speech, the Bay of Bengal-Northeast India was specifically highlighted as a single economic zone, where India-Japan cooperation is bound to foster multi-layered connectivity in the coming years. In this context, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is one of the most promising avenues for India and Japan. In addition, among the BIMSTEC members, the Andaman & Nicobar Islands (India), Bangladesh, and Sri Lanka are key strategic locations to enhance the ambit of India-Japan regional cooperation. For example, Japan will help Bangladesh construct a deep sea port as a doorway between North Eastern India and the Bay of Bengal. Also, Japan will host a conference of creditor nations in cooperation with India and France to restructure debts of Sri Lanka.

India and Japan must also, in cooperation with ASEAN, work together to resolve the political, economic, and humanitarian crisis in the military junta-ruled Myanmar, especially because of the junta's increasing convergence with authoritarian China.

To effectively combat China's incredible influence and presence in the Indo-Pacific, particularly the rising naval footprint in the Indian Ocean region, India and Japan need to make more proactive efforts to engage the Bay of Bengal littoral states. Cooperation with key third countries (or actors like ASEAN and BIMSTEC) is essential to this endeavor.

In a nutshell, both countries must use the momentum provided by their greater bilateral bonhomie to take forward their comprehensive partnership to the next level, in keeping with their growing global profiles. In other words, the time has come for the long-standing partners to reconfigure their ties in the economic, strategic, and technological domains by expanding their collaboration in a manner that incorporates the Indo-Pacific and global context.

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