

TOWARD STRATEGIC ECONOMIC COOPERATION BETWEEN INDIA AND JAPAN

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Under the leadership of Prime Ministers Narendra Modi and Shinzo Abe, India and Japan are increasingly using infrastructure and connectivity projects, particularly in regions bordering India, to further converge their interests. While such economic cooperation between New Delhi and Tokyo is not new, the clarity of strategic purpose driving it is. The two countries are pursuing greater cooperation to further their own regional interests and strengthen their collective capacity to counterbalance China's ambitions and its own connectivity initiatives in Asia and beyond.

A DEEPENING ECONOMIC PARTNERSHIP

Japan has a long and impressive history of foreign development assistance, and India has been a major South Asian recipient for decades. Beginning with technical cooperation programs in 1954, Japan's Official Development Assistance (ODA) emerged as a crucial source for infrastructure funding for emerging economies.¹ India and Japan began their economic relationship soon after they established diplomatic ties in the early 1950s. Japan extended a yen-denominated loan, the first of its kind, to India in 1958 under the leadership of then prime minister Nobusuke Kishi, the grandfather of Shinzo Abe.² The loan was extended shortly after then Indian prime minister Jawaharlal Nehru hosted Kishi in 1957, as both looked to establish bilateral relationships and engage with the international community.³ From its first ODA loan in 1958 to investing in the construction of the Delhi Metro, which began around the turn of the century, Japan has emerged as a trusted partner for infrastructure development in India.⁴ Given its size, India has historically

received the lion's share of Japanese ODA in South Asia—New Delhi has been the largest recipient of Japanese ODA in South Asia since 2003.⁵ In 2014, for instance, India received 57 percent of Japan's South Asia ODA budget.⁶

Over time, Japan has integrated ODA more deeply into its broader foreign policy agenda. Japan's ODA budget expanded from \$100 million in 1960 to \$4.3 billion in 1984, making the country the second-largest aid donor in the world by the mid-1980s. Japan's ODA budget in 2015 stood at approximately \$10 billion.⁷ Until 2003, Japan's ODA lacked a clear strategic rationale. That year, Japan revised its ODA charter for the first time in a decade, explicitly linking its aid and security policy in an effort to "maintain and strengthen international peace and stability;" this charter is an official guiding document that lays out the key principles and goals of Japan's aid policy.⁸ In 2015, Abe's cabinet replaced the ODA charter with the Development Cooperation Charter,⁹

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highlighting the strategic dimension of Japan's ODA. In moving from development assistance to development cooperation, Japan is seen as a development partner in the region. The India-Japan relationship is a good example of this shift.

At least in part, India and Japan's deepening economic partnership has been prompted by a recognition of China's efforts to enhance its influence by funding development projects in its neighborhood. China plans to build a corridor of infrastructure projects across both land and sea routes connecting Southeast Asia to Europe, popularly known as the Belt and Road Initiative (B&R).¹⁰ The project is divided into two parts: a continental road (the Belt) and a sea route known as the Maritime Silk Road. As China extends its influence and reach throughout Asia, Japan and India naturally are seeking to do the same. The recent upturn in economic engagement between India and Japan is founded on the twin pillars of development assistance and infrastructure development to enhance domestic and regional connectivity. Both countries are employing economic instruments for purposes that include advancing their respective strategic interests as well as strengthening their bilateral relationship and fulfilling other national objectives.

There are several security-related reasons for New Delhi to pursue closer cooperation with Tokyo in response to Beijing. For India, both the continental and maritime routes of China's B&R initiative are of strategic concern. The China-Pakistan Economic Corridor, a flagship B&R project, runs through Pakistan-occupied Kashmir, a disputed territory between India and Pakistan. On the maritime front as well, New Delhi has been wary of the growing number of Chinese infrastructure projects in its neighborhood especially in the Maldives, Mauritius, and Sri Lanka.¹¹ To be sure, governments in the region are hardly passive actors in this space. Chinese, Indian, and Japanese investments are stimulating significant internal debate in these countries. Meanwhile, China's development of the Gwadar Port in Pakistan and an increase in Chinese submarine dockings in the Karachi Port in Pakistan are irritants in the Indo-China relationship.

Underlining the fine balance between infrastructure development and its accompanied strategic aims, India's Foreign Secretary S. Jaishankar remarked in a March 2015 speech: "The interactive dynamic between strategic interests and connectivity initiatives—a universal proposition—is on particular display in our continent. . . . We cannot be impervious to the reality that others may see connectivity as an exercise in hard-wiring that influences choices."¹² In all these cases, the underlying concern is that Chinese economic influence will give way to larger strategic gains for Beijing in India's immediate neighborhood.

India also has important economic interests to consider. New Delhi has to craft a balanced policy on Chinese-led initiatives given India's large and growing appetite for infrastructure investment. For example, India was one of the first nations to sign on to the Asian Infrastructure Investment Bank, of which China is a majority stakeholder, with an authorized capital of \$100 billion earmarked for development finance.¹³ Despite this, India is yet to respond to China's invitation to join the B&R given its suspicions regarding the project.¹⁴

At the same time, the Modi administration has made infrastructure development a key priority, with a stated commitment to revitalize India's moribund rural, power, and transportation sectors and to enhance domestic connectivity.¹⁵ India signed an agreement with Japan in December 2015 to build a high-speed rail in the Mumbai-Ahmedabad corridor using Japanese technology, financing, and technical assistance. Japan pledged a loan of \$12 billion for the Mumbai-Ahmedabad high-speed rail (with a total cost of approximately \$15 billion) at highly favorable terms for India. During the same visit, Abe committed \$12 billion to Modi's Make in India initiative, which aims to transform India into a global design, manufacturing, and export hub. Japan is a particularly attractive source of investment for India because of its technological expertise, long experience in implementing development projects, and commitment to timely delivery. The first phase of the Delhi Metro, for instance, was completed two years and nine months ahead of schedule.¹⁶

Additionally, India's and Japan's strategic interests converge in this area. By cooperating with India to develop connectivity projects in South and Southeast Asia, Japan has an opportunity to accomplish its objective of countering Chinese economic and strategic expansion in the region. Japan's use of official development assistance as a tool of economic statecraft seems to be directed toward reinforcing its dominance as an aid donor while counterbalancing China's expansion. China's increasing military and political assertiveness in Japan's immediate security environment is a key driver of this change. This convergence in strategic interests has provided a strong foundation for Modi and Abe to carry their countries' bilateral relationship to new heights.

TOWARD GREATER ECONOMIC ENGAGEMENT

Consequently, to balance China's influence in the region, both India and Japan have launched their own infrastructure development projects. The central features of this pushback are Japan's Partnership for Quality Infrastructure (PQI) and collaborations in northeast India and on the Andaman and Nicobar Islands located off the Indian coast.

The PQI is an initiative for advancing Japan's expertise in infrastructure development especially against the backdrop of an increasing competition to build economic corridors. The initiative was launched by Abe in May 2015.¹⁷ The Japanese government and the Asian Development Bank have committed \$110 billion of infrastructure funding over the next five years.¹⁸ B&R, on the other hand, has multiple sources of funding that may total around \$1 trillion, including the Silk Road Fund and potentially the Asian Infrastructure Investment Bank.¹⁹ While the PQI cannot directly compete with the scale and scope of the B&R, its comparative advantage lies in highlighting Japan's extensive experience and expertise in building infrastructure. When announcing the project, Abe emphasized that "in order to make innovations extend to every corner of Asia, we no longer want a 'cheap, but shoddy' approach"—a statement widely read as a critique of the Asian Infrastructure Investment Bank.²⁰

Underlining the convergence of interests in the India-Japan relationship, a joint statement released in 2015 by the two countries read: "Seeking the synergy between India's 'Act East' policy and Japan's 'Partnership for Quality Infrastructure,' the two Prime Ministers decided to develop and strengthen reliable, sustainable and resilient infrastructures that augment connectivity within India and between India and other countries in the region."²¹

Keeping its strategic interests in mind, India is seeking investment in its historically underdeveloped northeast region, particularly in key highways connecting India to Bangladesh and Myanmar that are crucial for boosting India's road links to these countries and beyond. Following Modi's visit to Japan in September 2014, both leaders affirmed their commitment to infrastructure and connectivity projects with a special emphasis on the development of India's northeast region and increased connectivity between India and Southeast Asia.²²

Likewise, many of Japan's upcoming infrastructure projects in India are focused on developing and connecting northeast India with Southeast Asia. The Japan International Cooperation Agency, the official body that coordinates ODA, is currently conducting feasibility studies on a series of joint projects with its Indian counterparts. India has requested Japanese support to build approximately 1,200 kilometers of roads in the hilly terrains of six northeastern Indian states.²³ Among the projects selected, two highways have priority status: the Aizawl-Tuipang road on National Highway 54 in Mizoram and the Tura-Dalu road on National Highway 51 in Meghalaya.²⁴ Japan has pledged an ODA loan of more than 96 billion yen (about \$845 million) for both highways at minimal interest rates.²⁵

Beyond infrastructure development in northeast India, Japan has also invested in improving energy infrastructure on the Andaman and Nicobar Islands.²⁶ The islands provide the Indian Navy with significant access to the Malacca Strait, a key and strategic commercial route. Popularly referred to as India's unsinkable aircraft carrier, these islands allow New Delhi to expand its maritime influence in the region.

This is particularly important as India has watched China's presence in the Indian Ocean grow with some concern, especially the recent docking of Chinese submarines in Colombo and Karachi.²⁷ Given their distance from the mainland and environmental concerns, the Andaman and Nicobar Islands have remained underdeveloped. As strategic competition in the Indian Ocean increases, however, it is likely that calls for building infrastructure on the islands will only grow louder.

India and Japan are also keen to extend their economic strategic partnership to areas beyond South Asia. Modi's November 2016 visit to Japan underlined the need for improved connectivity between Asia and Africa for a stable Indo-Pacific region. Apart from collaborations in South Asia, both leaders mentioned Afghanistan and Iran as likely sites of future cooperation, specifically citing infrastructure development for the Chabahar Port in Iran as an example. Joint collaboration in developing this port is a key endeavor given Chinese investments in developing the Gwadar Port in neighboring Pakistan. An increasing Chinese presence in the Indian Ocean is of particular concern to New Delhi. Abe also talked about "the confluence of two seas" (the Pacific and the Indian Oceans) during his speech to the Indian Parliament in 2007.²⁸

Looking further abroad, Abe and Modi also "underscored the importance of India-Japan dialogue to promote cooperation and collaboration in Africa . . . [and] promote the development of industrial corridors and industrial network in Asia and Africa."²⁹ Both nations are discussing funding mechanisms and development projects for a Pacific-Indian Ocean corridor, with a particular emphasis on investments in African nations.³⁰ While the specifics of the corridor are still under consideration, this network could also be a strategic counter to China's maritime B&R route connecting Southeast Asia to Europe through Middle Eastern and East African countries. By expanding their bilateral relationship

to include joint infrastructure development across Asia and Africa, Abe and Modi are looking to leverage Japan's economic and India's strategic outreach beyond South Asia and in the broader Indo-Pacific Ocean region.

THE ROAD AHEAD

Going forward, India and Japan should develop a long-term strategy to identify specific geographical areas for further engagement. One additional area in which the two countries can work together could be Bangladesh's Matarbari Island, where Japan is investing in the Bay of Bengal Industrial Growth Belt.³¹ Further, New Delhi and Tokyo could also initiate a dialogue with Sri Lanka on facilitating government-to-government assistance for critical maritime infrastructure like the Trincomalee Port. India could also provide investment to complement Japanese funding for a highway running between India, Myanmar, and Thailand that is now extending to Vietnam.³² Yet another focus could be boosting infrastructure in the Andaman and Nicobar Islands, such as better port facilities and enhanced connectivity both on the islands as well as between the islands and the mainland. These improvements could eventually facilitate better military infrastructure on the strategically located islands.

Such planning and cooperation opens opportunities for both India and Japan to advance their national and regional interests. In doing so, Abe is formulating a more proactive role for Japan in maintaining global peace and security.³³ Meanwhile, under the Modi administration, India is seeking to realize its great power ambitions and increase its influence in its neighborhood and beyond. Greater coordination and a detailed policy blueprint could help the two countries build a strong foundation for a defining partnership that realizes the full potential of Japan's economic diplomacy and India's regional aspirations.

NOTES

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