

## FROM THE RINGSIDE

Time to invest in a new relationship

**N K Singh**

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There's a new momentum in the Indo-Japanese relationship. The fourth symposium on the future of this relationship, concentrating on the specific theme of 'Japan-India Strategic Partnership in the era of Asian Regional Integration' was held last week. I have been the co-chairman of this joint initiative by the government of Japan and the CII, along with Ambassador Tanino, their former ambassador to India and China and later foreign policy adviser to the prime minister.

These four years have seen a marked change in the scope, quality and intent of the dialogue. The frequency of high-level visits, the successful outcome of Prime Minister Manmohan Singh's visit last year and expectations from the forthcoming visit of the Japanese prime minister are integral to this change.

India's new fondness and willingness to forge regional alliances in Asia by easing tariff, and other conditions of access has been an important catalyst. Similarly, the need for India and Japan to cooperate on a security framework that goes beyond "merely engaging or containing China" to ensure the safety of the sea lanes, and an orderly management of the competitive quest for energy and raw material needs to be addressed in the broader context of Asia seeking a formal security architecture.

Accelerating Indo-Japanese economic cooperation has never been easy. It has often been an exasperating exercise, needing endless patience. In the five years I spent in Japan in the early eighties, apart from seeking enhanced quantum and quality of Overseas Development Assistance (India being its largest recipient), the investment menu could not proceed beyond the Maruti Suzuki venture.

No doubt this was a trailblazer for subsequent investments by other auto companies. The Japanese always had a long list of complaints and issues that needed to be resolved. They continued to view India as a large and growing market for export of capital and technology but not direct foreign investment. They were hesitant to look beyond the ASEAN region and viewed China with its insatiable appetite adequate to absorb their investment propensity.

I remember at least two exercises post economic liberalisation in 1991 to specifically address Japan-related issues. Many of these represented our endemic weakness and could only be addressed in a somewhat broader context. Quite a few of these have now been resolved.

The presentation made by Mikio Sasaki, chairman of the board of Mitsubishi Corporation, at the recent seminar therefore came as a pleasant surprise. He was realistic enough to recognise that India's exports and imports from Japan were a

modest 2.4 per cent and 2.5 per cent of the total, and direct investment to India only half a billion dollars, against \$6 billion to China during 2006.

There were other startling contrasts: The number of tourists visiting Japan was just 14,000 from India, compared to 200,000 from China; the number of students studying in Japan just 410 compared to 480,000 from China; and the number of Indians studying Japanese was 5,000, compared to 300,000 from China. The two-way flight connections per week are just 11, against 676 from China.

Notwithstanding these contrasts, the presentation highlighted three issues which cause concern to Japanese companies: Infrastructure inadequacy, a complicated legal and taxation system, and insufficient regulations for inter-state transactions.

Compared to this, the Indian advantage was significant — our new economic buoyancy, a rapidly rising consumption class, and growing reservoir of talented engineers with software capabilities at competitive costs.

The suggestions for the future included an early conclusion of the India-Japan Economic Partnership Agreement, a continuation of Japanese Overseas Development Assistance with an improved blend of grant, technical assistance as well as steps towards greater regional cooperation. The role of India and Japan in the ASEAN + 6 (a Singapore expert preferred to call it 3 + 3) framework was considered critical.

Has economic cooperation between the two countries finally arrived? Are we at the cusp of change? During the 1990s, while India continued its market liberalisation, Japan got increasingly preoccupied in prolonged stagflation, which blunted the energies of its innovative enterprises.

Japan has successfully overcome the lost decade and a half to re-position itself as an engine of Asian economic growth. This synchronises with our own unprecedented economic buoyancy. This is a time to reinforce the mutuality of interest and opportunities.

There's promise in providing incentive to investments that go beyond autos and auto ancillaries — for example, infrastructure, pharma, medical life-science research.

The chill created on the nuclear issue in an otherwise unbroken period of strong political ties and shared values is now behind us. So are the complaints by the Japanese companies. The issues pointed out by the Japanese represent our own priorities, particularly improving the cost and quality of infrastructure. One area where we have yet to focus is the resolution of disputes, enforcement of contracts, and improving the administration of justice.

Happily, the Japanese wait and prevarication is over.