

India and Japan: Deepening Bilateral Ties

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Japan's Foreign Minister Koichiro Genba visited India on 30 April for high-level talks with his Indian counterpart, S.M. Krishna, on many important issues, thereby reinforcing the importance of the bilateral relationships towards each other and for the region. During a visit to India in December 2011, Japan's Prime Minister Noda Yasuhiko had stressed the importance of India in the realm of peace and stability in the Asia-Pacific region. Such bilateral visits by top political leaders only reinforce common interests on bilateral, regional and global issues.

During Genba's visit, both countries agreed to set up a framework to discuss bilateral maritime security issues. Addressing reporters after his meeting with his Indian counterpart, Genba said that given India's importance in terms of security of a sea-lane connecting Japan and the Middle East, "enhancing maritime cooperation between the two countries should contribute to peace and stability in Asia". Japan and India are now planning to joint maritime military drills by the end of the year. It is hoped that the establishment of the new dialogue framework will pressure China, which has been stepping up activities in regional waters.

Agreement on rare earth metals

Another area on which both countries reached agreement was to launch a joint rare earth development project as soon as possible amid concerns about export restriction

by China, the world's largest rare earth supplier. The issue of joint development of rare earth metals between companies of the two nations was first raised during Krishna's visit to Tokyo in October 2011. The agreement on cooperation on the development of rare earth metals is designed to reduce Japan's dependence on China for those metals. India also has one of the largest production volumes and reserves of rare earth metals of any nation. Rare earths metals are indispensable for many high-tech products. As per the basic agreement reached on 30 April, India will supply Japan with about 14% of its rare earth metal needs. Besides India, Japan has also agreed to harvest rare earths with Kazakhstan. These moves will diversify Japan's supplies of the important minerals, and reduce its dependency on China in this field. Japan plans to recover the mineral from uranium residue in Kazakhstan's state-owned resource company, Kazatomprom JSC, and import 20 to 30 tons of dysprosium in 2012 and 60 tons in 2013. To date, Japan has relied on China for almost its entire dysprosium imports, about 500 tons to 600 tons a year.

According to 2008 figures,¹ of the total 124,000 tons of global rare earth production, China accounted for 96.8%, followed by India with 2.2%, Brazil 0.5%, Malaysia 0.3% and

¹ Figures by Japan Oil, Gas and Metals National Corporation taken from a report in *Yomiuri Shimbun* (2 May 2012)



others 0.2%. Therefore, China has the capacity to control and regulate rare earth metal trade around the world.

As per the agreement, Indian Rare Earth Ltd., a company affiliated with India's Atomic Energy Department and Toyota Tsusho Corp. will complete a plant in Orissa by the end of June 2012 to extract rare earths from uranium residue and start production of the minerals in August.

Included among the rare earths to be produced are: Lanthanum, used for hydrogen battery electrodes; Cerium, used in catalytic converters on gasoline engine exhaust systems, and neodymium, used in hybrid car motor electrodes. Full-scale production at the plant will supply about 4,000 tons of rare earths each year to Japan, enough to meet 14% of Japan's consumption. According to Japan Oil, Gas and Metals National Corporation, India has 1.1 million tons of rare earths, the world's fifth-largest reserves. However, its annual production is at most 2,700 tons. Japan's technology is expected to promote rare earth production in resource-rich India and improve its recovery efficiency.

Cyber security and maritime issues

Japan recognizes India's rise in world affairs, and in particular India's naval capability to secure maritime trade in the Indian Ocean region. This issue received further recognition during the sixth round of strategic dialogue between Genba and Krishna. Both the leaders agreed to prepare for a joint naval exercise off the coast of Japan in 2012. Besides agreeing to build a secretary-level maritime cooperation consultation mechanism to reach a consensus to implement the first joint military exercise between Japan Maritime Self Defense Force and Indian navy in the second half of this year, the scope covers a wide range of areas.

The significance of the new dialogue initiative should be understood in the background of both countries' concerns about China's rapidly increasing political and economic muscle and when Asia-Pacific is seeing increasing security cooperation among all major democracies in the region.

Acknowledging India's importance, Genba stressed at a press conference, "India is a hub of Japan's maritime traffic" and expressed hope to deepen cooperation further in the coming years. He observed that both will "discuss maritime affairs with a special focus on maritime security", adding that the two sides are also looking to expand cooperation in counter-piracy operations off the coast of Somalia and in the Gulf of Aden.

Japan is cognizant of the fact that off India's shores are crucial sea-lanes that link Japan with West Asia. Therefore, the geo-political significance of India's location cannot be overlooked. The two sides also agreed to use aspects of close co-operation in space.

That the China factor is driving both India and Japan to forge a close strategic bond became demonstrably clear when Noda expressed his intentions to strengthen security ties with India to counter China's emergence as a military

power. In particular, maritime cooperation between the two is vital to the economic prosperity of not only the two countries but to the region as well.

India faces sea-lanes on the Indian Ocean that lead to the Middle East. From Japan's perspective, strengthening relations with India is important for Japan's security as China is intensifying its activities in the South China Sea. Speaking to the media, Noda said, "the strengthening of China's national defense capabilities that lacks transparency is a common concern in this region". India also has concerns about China's increased involvement in Sri Lanka, Nepal and Pakistan. Because of this, India has been expanding military exchanges with the United States, Australia and Southeast Asian countries. All these countries have a common objective to keep China in check. It is rare that both India and Japan have no historical problems and therefore there are no obstacles for strengthening bilateral ties.

However, intensifying India-Japan bilateral relations to counter China could be risky. In early December 2011, China suddenly postponed the dates of Noda's visit to China, which were scheduled for around 12-13 December. Later, Beijing proposed the dates to 28-29 December, the days planned for Noda's visit to India. Beijing intentionally sounded out the dates of Noda's visit to India as those of his visit to China. It transpired that China has begun to pay attention to the growing relations between Japan and India.

Economic

The economic component of bilateral ties is getting stronger by the day. The Japanese government led by the Democratic Party regards "infrastructure exports to emerging economies" as one of the pillars of its new growth strategies. In line with such a policy, Japan wants to expand Japanese business ties in India through loans and infrastructure projects.

Due to chronic fiscal deficits, the Indian government lacks the budget to build infrastructure for industrial use. However, companies from China, South Korea and some European nations are also working hard with their governments to win orders for Indian infrastructure projects. In such a situation, Japanese companies are struggling to obtain orders because their personnel costs are high and they lack the know-how to make products of average quality at low costs. This know-how is indispensable for businesses in emerging economies.

The metro railway construction project planned in Chennai in southern India will receive developmental assistance from the Japanese government (a French company won the orders for the train cars). Japan and India are also cooperating in the construction project of an industrial corridor stretching from New Delhi to Mumbai. However, Japanese consulting companies have lost repeatedly in the biddings held by state governments for urban planning programs. Major Japanese construction companies fear



that if Japan offers only direct aid, all the orders for the project will be won by Chinese and South Korean firms.

In the 28 December summit between Noda and Singh, Japan and India decided to expand their currency swap arrangement. Due to Europe's debt crisis and tepid growth in the United States, India's growth is slowing. In such a situation, the expansion of the currency swap arrangement is expected to play the role of "sea walls" to prevent economic confusion in advance.

The Comprehensive Economic Partnership Agreement (CEPA) that entered into force on 1 August 2011 is an important milestone in the trade and economic relations between the two countries. The CEPA will further deepen their economic engagement in terms of trade in goods, services and investment, and contribute immensely to mutual prosperity. Even in the midst of Japan's reconstruction efforts following the Great East Japan Earthquake of 11 March 2011 and the Fukushima nuclear accident, Japan has extended unwavering support to India's development and committed to substantial ODA assistance to encourage India's efforts towards social and economic development including in the area of infrastructure development. Japan has pledged to extend loans totaling US\$1.68 billion² to fund two new projects, namely, "Delhi Mass Rapid Transport System Project Phase III" (US\$1527 million)³ and "West Bengal Forest and Biodiversity Conservation Project" as priority projects in the fiscal year 2011.⁴ With this commitment, the cumulative commitment of Overseas Assistance Development (ODA) from Japan reached US\$43 billion.⁵

The realization of the flagship Western Dedicated Freight Corridor (DFC), which runs through the Delhi-Mumbai Industrial Corridor (DMIC), with Japan's support is another hallmark of India-Japan economic partnership. Both sides have agreed to expedite work on Phase II of the DFC with a view to starting implementation of the project as early as possible.

To further the shared vision for development of the DMIC, it has been agreed that the governments and private sectors of the two countries cooperate in a mutually complementary manner to develop an environmentally sustainable, long-lasting and technologically advanced infrastructure in the region of DMIC. A US\$9 billion dollar credit facility for Japan-India DMIC has been launched. Apart from the US\$3.22 billion⁶ contributed by India for the development of trunk infrastructure, Noda announced the intention of the Government of Japan to make available for DMIC projects Japan's public and private finance totaling US\$4.5 billion in the next five years, which

includes appropriate financing from the Japan Bank for International Cooperation (JBIC) as well as ODA loan. The hope is the DMIC Project will redefine the character of infrastructure growth in India through advanced technology and green growth. The active involvement of Japanese agencies and companies would provide an impetus for the development of DMIC. This would be achieved by Japan's active involvement through equity participation in DMIC Development Corporation (DMICDC) as well as provision of technical expertise, board members and experts. In order to effectively utilize the facility and to facilitate investments by Japanese companies, India will try to resolve issues within the existing regulatory framework and guidelines of capital regulations, and an inter-departmental consultation mechanism will also be established by India to expedite solutions to issues raised by Japan during implementation. To meet the energy requirements in the DMIC region, adequate gas for power projects of DMIC would be made available at reasonable rates and in a timely manner.

The Early Bird Projects and Smart Community Projects of the DMIC are making steady progress. In particular, both countries have prioritized the following projects: seawater desalination at Dahej, Gujarat; a micro grid system using large-scale photovoltaic (PV) power generation at Neemrana Industrial Area in Rajasthan; and gas-fired independent power producer (IPP) in Maharashtra, recognizing the potential to serve as a successful model of India-Japan cooperation on the DMIC.

Apart from the DMIC project, infrastructure development in the areas between Chennai and Bengaluru, where an increasing number of Japanese companies including SMEs have made direct investments to establish their manufacturing base or other forms of business presence is another priority area. Against this background, efforts are underway to improve infrastructure such as ports, industrial parks and surrounding facilities in Ennore, Chennai, and adjoining areas. Japan has agreed to extend financial and technical support to the preparation of India's Comprehensive Integrated Master Plan of this region based on which planned development and work on related facilities could be taken up most quickly. Officials from both sides are working to operationalize the Comprehensive Integrated Master Plan.

Both countries have also agreed to tap Japan's technologies and expertise in the development of India's high-speed railway system. India welcomes Japan's interest in promoting the development of high-speed railway system in India.

To bolster India's development, both countries recognize the importance of increasing the speed of passenger trains to 160-200 kilometers per hour along the existing Delhi-Mumbai route of the western leg of the Golden Rail Corridor. After a feasibility study with Japan's financial and technical assistance, the final report was ready by February 2012.

2 In Yen terms, it works out to 134,288 billion.

3 It works out to be 83030 million or 7909.10 Crore Indian Rupees.

4 "Japan commits yen 134,288 billion as loan assistance for two projects in India" (*NetIndian*, 29 March 2012).

5 In Yen terms, it works to 3454,657 billion or 213,601.44 Indian Rupees.

6 This works out to be 175 billion Indian Rupees.



Amid global economic uncertainties, ensuring the stability of the financial markets is all the more important for the stable economic development of the two countries. To this end, both countries have decided to expand the earlier bilateral currency swap arrangement from US\$3 to US\$15 billion. It is hoped that this enhancement will further strengthen foreign investment, contribute to ensuring financial market stability and further develop growing economic and trade ties between the two countries.

Nuclear cooperation

In 2010 both countries began negotiations on a nuclear energy agreement that would be needed for the export of nuclear energy technology. However, after two rounds of talks dialogue was suspended because of the accident at the Fukushima nuclear plant caused by the 11 March Great East Japan Earthquake. Nuclear power is a touchy issue in Japan and a deal will not be easy. From the Japanese perspective, there are certain elements that need to be addressed before entering into this partnership. The Japanese government holds the position that a major precondition for cooperating on nuclear energy technology would be for India to refrain from conducting nuclear weapons tests.

This issue was discussed during Noda's December 2011 visit, when Noda and Prime Minister Manmohan Singh agreed to advance negotiations on an India-Japan Agreement for Cooperation in the Peaceful Uses of Nuclear Energy. Japan sees these negotiations as a nuclear safety and non-proliferation issue. In the Joint Statement issued on 28 December 2011, Noda and Singh reaffirmed their shared commitments to the total elimination of nuclear weapons. While Noda stressed the importance of India signing the Comprehensive Nuclear Test Ban Treaty (CTBT) at an early date, Singh reiterated India's commitment to a unilateral and voluntary moratorium on nuclear explosive testing. The two Prime Ministers reaffirmed their commitment to work together for immediate commencement and an early conclusion of negotiations of a non-discriminatory, multilateral and internationally and effectively verifiable Fissile Material Cut-off Treaty (FMCT) in the Conference on Disarmament, bearing in mind the UN General Assembly resolution on "treaty banning the production of fissile material for nuclear weapons or other nuclear explosive devices". The 5th meeting of the Japan-India Energy Dialogue will be held later this year.

Creating "little Japan" in South India

As part of the new bilateral relationship, the Japanese government will develop a large-scale township in a suburb of Chennai in southern India. This government-industrial complex plan envisages "exporting" the entire town with an industrial park for smaller businesses along with shopping centers that are tailored to Japanese taste. The town is to have a population of 50,000 people, with "Japanese-quality" infrastructure including seaside

resort, industrial park, hospital, shopping mall and, of course, a golf course. This will be first case of urban development as part of the infrastructure export, which is the new growth strategy of the Japanese government. Edano visited Chennai on 10 January 2012 to ask for the support of the Chennai government.

However, this plan has been criticized by the Japanese people. Many speculate that this is a veiled plan by Japanese political and business elites to abandon their home country, and part of the reason for the Noda administration's insistence on the tax hike despite the incipient recession. Critics of the project argue that while there is a great need for money within Japan to actually rebuild tsunami-devastated areas (not the bogus "decon" projects), the Noda administration has been busy distributing money throughout Asia. The Bank of Japan has opened multi-billion dollar currency swap lines with India (US\$15 billion) and South Korea (US\$70 billion).

As per the plan, Mizuho Corporate Bank and JGC Corporation, programme management contractor and investment partner, will invest US\$50 million⁷ into a development corporation in Chennai. The industrial park will be 2.3 square kilometers. The plants that will be housed in the park will start operation in 2013. The accompanying residential area will be 2 square kilometers. The "resort city" with the expensive condominiums facing the Indian Ocean will break ground in 2013. Japanese shopping centers, the golf course, and hospitals with permanently stationed Japanese doctors will also be built. A city for Japanese expatriates awaits India.

According to a report in *The Times of India* on 11 January 2012, the Tamil Nadu Chief Minister J. Jayalalitha signed a memorandum of understanding with a Japanese investor group and Ascendas Development Trust (AIDT) to build a "Japan Town" in Chennai, India: 1,500 acre integrated Japanese township with residential and industrial facilities for Japanese investors comprising of industrial park, resort city with pricey condominiums by the sea, golf course to come up soon 50 kilometers south of Chennai along Old Mahabalipuram Road. It turned out that the developer for the whole project is a Singaporean real estate developer with large portfolios in China, India, Malaysia, Vietnam, the Philippines, Thailand, and Indonesia. The countries that this company has businesses with happen to coincide with the countries that the Japanese ministers have visited frequently since 2011.

According to Ascendas Group president Chong Siak Ching, the Tamil Nadu government has promised full support to the project and collaboration with local government agencies for the project's implementation. While the township is expected to have lifestyle amenities for up to 40,000 people, the infrastructure will be "eco-friendly".

At home in Japan, Edano is being criticized for his initiative. The Japanese people criticize the government for spewing

⁷ This works out to 4 billion Japanese Yen.



radioactive materials all over the northern hemisphere and therefore worry about CO² and anthropogenic “global warming”. Therefore, Edano now talks of developing “eco-friendly” environment for its people outside Japan. Edano is also criticized for engaging a Singaporean real estate developer, Ascendas amidst persistent rumor that he evacuated his family to Singapore soon after the Fukushima.⁸

Haruki Madarame, chair of Japan’s Nuclear Safety Commission, spoke the truth when he said “It’s all about

money”. It is all about money, whether “it” is a nuclear power plant, a nuclear waste facility, or a Japanese-only city in southern India. If this is the perception of the Japanese people to some government initiatives, it calls for a new course but not one that derails the burgeoning relationship between India and Japan. While a deal on the sensitive nuclear issue will have to wait for some time, the real driver for deepening India-Japan bilateral ties are security and economic issues on which shared interests are strong.

8 “Japan’s Government-Industrial Complex to Create Small “Japan” in Southern India” (EXSKF, 14 January 2012).

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