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India, Japan, China: Makers of a New Asia

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What many observers call the ‘China factor’ has cast its long shadow on India-Japan ties. Both these countries today command the kind of economic leverage – Japan has been doing that for much longer and also to a much greater extent than India – that could have served as the starting point for them to play a more assertive role in world affairs and international business. But neither of them has used that handle to the fullest extent.

Three visits by India’s highest-ranking policy makers to China in the course of nine months - Indian Prime Minister visited China in January 2008 and External Affairs Minister in October 2007 and more recently in June this year - show India’s keenness to establish a purposeful, friendly relationship with Beijing and promote closer bilateral economic ties. It is also highly improbable that the two sides did not discuss the proposed India-US civilian nuclear agreement and the ‘overt’ opposition of the Indian left wing to it. For China, which had signed a similar agreement with the US in 1985 but which was implemented only in 1998, to frontally oppose a more or less identical India-USA accord would not been very convincing

For Japan too, its domineering neighbour across the ocean is too important and too demanding to be ever fully understood. Both sides watch hawk-eyed the slightest body movement of each other. And both realise that they cannot get away from this reality. That makes the equation between the two so very critical and high-strung.

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A Wind of Change

However, during the last few years India and Japan have been showing an increasing urge to shake off some of their somewhat passive role in world affairs and play a more assertive and positive part in both commercial and non-commercial issues. In fact, both have a history of having done, or have attempted to do, that a few decades ago. In the pre-Second World War days, Japan toyed with the idea of creating a Greater East Asia Co-prosperity Sphere that would have been in a way its colonial backyard, though not in so many words. The move crashed after Japan's defeat in the war.

India's first Prime Minister Jawaharlal Nehru started in style in the 1950s and emerged as one of the respected leaders of the Non-Aligned Movement (NAM), which was essentially his own brain-child, and of the newly independent countries across the globe. He strode on the world scene as an international mediator at large. But the brief border war with China of 1962 marked the end of that chapter.

In today's changed situation, such things are passé. The world has outlived the days of gunboat diplomacy and occupation forces. Nor can any country continue much longer with a policy of going it alone or maintaining equidistance from all. The world today is unipolar. An unprecedented long run of high growth years since the mid-1980s has helped the United States assume the mantle of an undisputed master of the class.

There are, however, tell-tale signs of new thinking emerging in both India and Japan. Economic compulsions and the demand for fast growth and poverty alleviation have already led India much closer to the rest of the world and open up to ideologies and to models in vogue elsewhere. It has moved closer to the US economy and many of the policies practised there. The proposed civilian nuclear agreement will put a firm stamp on this emerging equation.

India-Japan economic cooperation has till the other day remained extremely limited and lacklustre. It has been a little better during the last few years when some signs of animation showed up. One sees today signs of a new and welcome perception in both countries of the need to widen their area of contact and consultation and make their ties more participative. As of now, India's business has seen precious little of that famed Japanese sparkle. Its investment totals a little over US\$ 5 billion, a pittance for the world's second largest economy in terms of gross domestic product. And even this figure would not have been possible but for the spurt seen since the middle of this decade.

However, it all is changing. A slew of fresh Japanese investment in India is expected, most of it going into the automobile sector. Toyota Motor, Mitsubishi Chemical, Suzuki, Honda Motor, and Nissan Motor are expected to make fresh investment in their Indian plants. More Japanese companies and Japan-based foreign companies are making foreign portfolio

investment in India. Nomura Asset Management, Shinko Investment, Mitsubishi UFJ Asset Management, Sumitomo Mitsui Asset Management, Shisei Investment Management, PCA Asset Management, J P Morgan Asset Management, HSBC Investments (Japan), and Credit Agricole Asset Management are some of the leading players.

Japan's Involvement

Between 2005 and 2007, the number of Japanese participants in India has doubled to 16. The net asset value of their investment funds has risen to over US\$ 8 billion by 2007, from a little over US\$ 4 billion two years ago. Japan has been involved in quite a few public service-oriented infrastructure projects as in West Bengal and elsewhere in India.

In the other major arm of business, trade, the picture is not much satisfying either. The bilateral trade between the two countries now come to around US\$ 7 billion. But, here too one sees a wind of change. Some recent years have witnessed a spurt of around 25 percent or so. A new item that has entered the trade basket, petrochemical products, is sourced mostly from the Mitsubishi Chemical plant in Haldia, and it has made the difference. Many of the commodities manufactured in various Japan-India joint ventures in India are exported to the ASEAN (Association of South East Asian Nations) region. These transactions are not shown in the bilateral trade figures, though in effect they come under this head.

But Japan and India can do much better. Japan has been doing a lot more business with China, a country about which it has publicly aired its misgivings from time to time. It has invested nearly US\$ 60 billion in China, that is, nearly seven times more than the Indian figure. Its trade with China is also far higher, of the order of US\$ 210 billion.

Indian industry circles explain that China still remains a developing economy, whereas Japan is already developed and as a result it proves easier to choose items or services for trading with China than with Japan. The Japanese market is more selective and discerning. India is doing business to the order of over US\$ 25 billion with China, which is nearly three times the amount of India-Japan trade. However, inspired by India's remarkable economic stride in the last few years, Japan now seems to be more serious than before about India as a trading partner. The two countries are now working on a detailed package to promote closer business ties.

Failure to Win Friends

India and Japan have been conspicuous by their absence from many forums in which other Asian countries are represented. The Shanghai Cooperation Organisation (SCO) has China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan who discuss matters of mutual

security. India has been a SCO observer, but quite often it does not send its representative to attend its meetings.

Both India and Japan would appear to have so far failed to fully cash in on their economic strength to win friends and influence people. This is particularly so in relation to countries those are set to emerge as extremely important as trading centres and as sources of natural resources. Japan has during the last several years been meeting leaders of African nations regularly, but its trade with them has shown little bounce yet. Africa-Japan trade stood at around US\$ 18 billion in 2005. But China, a late starter, has pushed it up to US\$ 40 billion in the same year. It has financed many projects there to make its presence felt in public view. This should suggest gaps in planning a proper package.

India's record has not been much better either. Much has been made of the 'Look East' policy, which is supposed to stand for an intensified and accelerated drive to promote closer trade and investment ties with the East and South-East Asian countries. But the bottom-line looks disappointing. In 2006, India's trade with the region was around US\$ 30 billion, whereas China was way ahead at over US\$ 160 billion. That means though China entered the region much later than India and Japan, it has already marched ahead far more jauntily.

China has made a big success with its economic diplomacy in South East Asia, and in particular with CLMV countries. Its decision not to revalue its currency after the 1997 'Asian meltdown', and the package of economic concessions it has offered have given it a friendly image. That image has been further bolstered by what has sometimes been called China's charms offensive. At the same time, it is not that the reservations that some of these nations and also the USA had towards the Chinese ways have been totally erased.

But China is taking them on its stride. It has signed a free trade agreement with ASEAN in trade in goods in 2006 and in services in 2007 and is waiting for an FTA in investment. India has, however, not seen any change in its ASEAN status as a full dialogue partner, the elevation it earned in 1995. It has been alleged in some quarters that China, which has moved quite close to ASEAN members and has gained considerable leverage in East and South East Asia, does not favour that India gets too close to the region. In this sense, Japan has done better and ASEAN has become its second largest trade partner. Japan has also made sizable investment and has been offering liberal official development assistance to the region.

Importance of Central Asia

In recent years Central Asia has held out good promise of having rich oil and gas reserves. In 2005, India drew up a master plan for an Asian gas grid that would have linked Asia's gas producing and consuming centres through a network of pipelines. But by 2008, India

has changed its stand. It has officially stated that it is not pursuing the project. It has chosen to deal with individual countries on its own or jointly with some others.

Japan has lately been taking considerable interest in this region's oil and gas potential. It took a major step in 2006 when its prime minister visited Central Asia. Since then, it has been regularly holding meetings and conferences with Central Asian leaders and oil experts. But then others have been more alert. The United States and Russia and, during the last few years, China, have tried to dig in what promises to be one major source of gas and oil in an increasingly energy starved world.

For the time being the bigger countries will have the bigger slices of the cake. But then *realpolitik* will have the final say and slowly new equations will emerge. India has some historical socio-religious links with Central Asia and these may still stand it in good stead. And it has been skilfully trying to spread out its relations with these countries beyond the realm of strict business only. It has held out to them a helping hand in such diverse areas as beefing up their defence hardware, improve their medical facilities and promote cultural exchanges. These should pay some dividend sooner or later.

The Energy Situation

Both Japan and India today have to contend with a serious energy situation like many other countries. Both depend on imported oil and coal to meet their basic energy needs. India imports over two-thirds of its modest consumption demand which is galloping ahead in the wake of improving standard of living in the country and the consequent jump in energy off-take in homes and offices and by a growing fleet of automobiles. It has become one of the first ten consumers of oil.

Japan ranks nearly at the top of the list. It meets almost its entire oil requirement from imports. Besides overseas crude, it also consumes almost half of the world's total liquefied natural gas imports. Both countries have been trying for some time to acquire stakes in overseas oil fields. The idea is that once their own companies secure a part of the ownership of these fields, these overseas arms will ensure a regular flow of oil or gas to the homeland.

But to achieve such a position, a country needs to play by the rules of the oil game. China has lately emerged as a formidable contender in this sphere also. India has recently had a taste of how it is working. China has edged it out in its bid to acquire energy assets in Myanmar and Kazakhstan and several other countries. Yet, in the end, in this hunt for oilfield stakes, there seems to be no permanent friends, nor permanent enemies.

This shows up as Indian and Chinese government oil companies like ONGC, OVL, GAIL, Sinopec, China National Offshore Oil Corp, China National Petroleum Corp and many

others come together to make joint bids and also agree to have their respective shareholding in the same company. Interestingly such things have happened between Indian and Chinese companies but not Indian and Japanese companies.

Not Quite Productive

The economic consequence of the stance taken by India and Japan on the international arena has not proved by and large to be quite productive. In fact, they might not have much time left either to play the few aces they still have - because of the same 'China factor'. India and Japan both are operative non-Western democracies and while Japan has already become a developed economy, India is recording rapid growth. They remain convincing examples of a non-Chinese growth model that so far has been quite successful in delivering the goods.

India, it looks, seeks to follow a somewhat distinctive approach. External Affairs Minister Pranab Mukherjee in an address at Peking University during his June 2008 visit to China spoke of evolving "an open and inclusive architecture" for security in Asia in the light of existing power structure and alignments in the continent. He stressed that India favoured a structure that should be broader than the usual sub-regional security outfits. Though not spelt out in so many words, a prescription of this kind amounted to a veiled statement that India did not quite appreciate some of the subregional organisations that have come up under China's aegis as they worked with a limited brief.

A Pan-Asian Architecture

But Mukherjee also indicated once that such a pan-Asian architecture comes into being, some of the existing associations like the ASEAN Regional Forum (ARF) could be taken in. The fact that India has spelt out such a plan in Chinese soil can be interpreted as marking a new proactive stance on an issue in which it has so long largely played a marginal role. But so far as Japan is concerned, one still has to be satisfied with what is more or less known.

On some specific issues it is now different, as on India's nuclear plans. Japan reacted sharply to India's nuclear tests in 1998, but its views have been distinctively muted over the proposed India-US civilian nuclear agreement. One understands its acceptance problem in Southeast Asia because of the rankling memories of wartime Japanese occupation, but in South Asia it has a cleaner and friendly image. A couple of years ago when Japan's bid for a permanent seat in the United Nations came up, it was supported by three South Asian countries, Afghanistan, Bhutan and the Maldives.

A More Affirmative Stance

But signs of ambivalence show up from time to time. India tends to be extra-cautious when dealing with nations which are not in the good book of some big powers. Only during the last few years that it has been different. Its stance nowadays often looks more affirmative and that has given it a new bounce. Broadly, it is now a mixture of old and new policies. Where it has overriding self-interest and its advantages are all too obvious that it chooses courses not to their liking. For instance, it has not flinched from its stand of active involvement in the proposed Iran-Pakistan-India gas pipeline project in spite of many public statements from Washington that it would not like India to go ahead in view of the United States' strained relations with Iran.

India has played a warm host to the Myanmar junta on some recent occasions. But, this too has not been liked by many. One leading American newspaper under the heading, India's identity crisis in Myanmar, wrote, "In Myanmar, formerly known as Burma, India's betrayal of its own national identity has become an embarrassing spectacle. A section of US public opinion also likes to believe at times India behaves like a copy of China". The same paper wrote, "There is a tragic dimension to India's practice of *realpolitik* in its contest with China. Domestically, India is the antithesis of China. But when India sets out to compete with China in a 21st-century version of the Great Game once played by European colonialist powers, India transforms its outward appearance into a mirror image of China."

Way Forward

For both India and Japan, it is the time of challenge as well as of opportunity. Modern times has one big message – it is business first, everything else later. The world is facing for the first time the question of the very viability and durability of many national economic systems as much as of the world economy at large. The demands of business are overtaking the old-time calculations of spheres of dominance. This is forcing many changes. Japan is inching out of a defence set-up that had remained committed to ahimsa. It has added overseas operations to its agenda for self-defence. Self-defence may soon be stretched to include also collective defence. Its attachment to non-nuclear principles is also up for review. Similarly, for India, the new equations with the USA can conceivably usher in an emboldened stance on many issues of general import. Both the countries deserve such an image makeover. It is overdue.
