



## THE GEOPOLITICAL CONTEXT OF CHANGING JAPAN-INDIA RELATIONS

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### Abstract:

A significant, but, under-researched political adjustment in international relations in recent years is the upgrading of low-key relations between Japan and India to a global and strategic partnership. Particularly in the last decade Japan-India relations have gathered significant momentum. The focus of this paper is on the geopolitical context in which Japan-India relations are evolving. It is in tandem with the rise of China and Indo-US engagement that Japan has sought to raise its bilateral relations with India to a higher level with stronger economic and politico-strategic dimensions.

**Keywords:** Japan, India, strategic partnership, geopolitical context, rise of China.

### Resumen:

*Uno de los cambios más recientes en las relaciones internacionales y aunque significativa, no estudiado con el merecido detenimiento, es la mejora de las relaciones entre Japón y la India, pasando de una relación de perfil bajo a una auténtica asociación estratégica. Las relaciones bilaterales han cobrado un énfasis particular en la última década. Este artículo se centra en el contexto geopolítico actual en el que las relaciones Japón-India están desarrollándose. A la par que han ido teniendo lugar el auge de China y el acercamiento entre los EEUU y la India, Japón ha intentado elevar sus relaciones bilaterales a un mayor nivel con dimensiones económicas y político-estratégicas mayores.*

**Palabras clave:** *Japón, India, asociación estratégica, contexto geopolítico, auge de China.*

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## 1. Introduction

In the aftermath of World War II, when Japan was being “humiliated and trampled upon by the victorious powers” newly independent India had insisted that the world concede to Japan a position of honor and equality among the community of free nations. India invited Japan to participate at the New Delhi Asian Games as an independent nation in 1951; India actively supported Japan’s entry into the United Nations and Japan’s participation in the first Afro-Asian Conference in Bandung in 1955.<sup>2</sup> India also dissociated itself from the victorious powers and did not sign the San Francisco Treaty with Japan in 1951 but signed a separate Peace Treaty in 1952, a few months after having established diplomatic relations, in which it waived any claim to war reparations.

The relations between the two countries cooled considerably, with the advent of the Cold War, as Japan and India set out on quite different paths. Japan’s post-war position towards Asia was derived from the way Tokyo was firmly incorporated into the United States’ global strategy, within which it took on the role of America’s ally. Indian foreign policy, on the other hand was focused on an entirely different perspective in international relations – non-alignment. This was the important difference that conditioned the responses of both India and Japan to international issues and influenced how they viewed each other. Bilateral relations therefore moved haltingly and warily and for a long time remained limited to economic and cultural matters.

With the end of the Cold War the strategic divide between the two nations was over and there appeared to be a convergence of interests in maintaining peace and stability in Asia. The beginning of the 1990s, therefore, saw India and Japan resume high-level interaction to establish close ties with each other. In May 1990, Japanese Prime Minister Kaifu visited India as part of his sojourn to the South Asian region. The efforts of Prime Minister Kaifu led to the promotion of a South Asia Forum within the Japanese Foreign Ministry with a view to promoting relations with South Asian countries.

The Indian Prime Minister Narsimha Rao who paid an official visit to Japan in June 1992 to commemorate the 40<sup>th</sup> anniversary of post-war bilateral relations maintained the pace set by Prime Minister Kaifu. He and his Japanese counterpart Miyazawa Kiichi talked of “a unique opportunity to add several new dimensions to our relationship”. The two leaders shared the view that India and Japan must “cooperate in restructuring international relations in a manner that permitted global and regional issues to be tackled both effectively and in a more democratic international environment”.

There was even talk of the need for a bilateral security dialogue between India and Japan during this period as both New Delhi and Tokyo started to view their ties in a regional context. The stagnancy which had been observed for many years in Indo-Japanese economic relationship was also broken in the early 1990s as India undertook major economic reforms and unveiled a “Look East” policy.

India’s nuclear explosions in May 1998, however, saw Japan taking an aggressive stand on the issue of proliferation particularly nuclear proliferation. The diplomatic impasse ended with Japanese Prime Minister Mori’s visit to India in August 2000. The two countries agreed to establish a “Global Partnership in the 21<sup>st</sup> Century” and Japan lifted all nuclear-related

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<sup>2</sup> Jain, Purnendra and Todhunter, Mauree: “India and Japan: Newly Tempering Relations”, in Jain, Purnendra C. (ed.) (1996): *Distant Asian Neighbours: Japan and South Asia*, New Delhi, Sterling Publishers, p.88.



economic sanctions on India on October 26, 2001. Since Japanese Prime Minister Junichiro Koizumi's visit to India in April 2005, Japan-India summit meetings have become an annual feature.

## 2. Japan's Relations with Rising China

The relations between China and Japan started changing in the 1990s. The Chinese economy began its rapid takeoff, while the Japanese economy descended into a decade of stagnation. Often referred to as the "lost decade," this period saw the Japanese economic bubble burst and by 1997 Japan entered into a period of severe recession. Even though Japan remained well ahead of China in absolute economic and technological capabilities, China started to narrow the gap at an impressive pace. For Japanese companies, facing economic stagnation at home, China's growth provided new opportunities. The profitability of doing business in China, combined with the assumptions that Japan's technological superiority would permit it to maintain its economic lead indefinitely while being able to shape China's strategic direction, resulted in substantial Japanese investments in its larger neighbor.<sup>3</sup>

However by the late 1990s China's increased defense spending and military modernization along with the aggressive Chinese position with regard to the various territorial disputes with its neighbors was ringing alarm bells in Tokyo. A new image of China as a security threat took shape in the context of Chinese nuclear and missile testing and military exercises off the coast of Taiwan. The Japanese *Defense White Paper* of 2000 stated – 'China's recent modernization of its nuclear, naval and air forces and the scope of its maritime operations...demand continued scrutiny.' Over the next few years Japan noted the increasing frequency of incursions by 'observation' and 'scientific' maritime vessels into its exclusive economic zone around the disputed Senkaku islands. Relations reached a new low in November 2004 when a Chinese submarine passed through Japanese territorial waters without surfacing. It in this background that Japan, in 2005, adopted new National Defense Program Guidelines (NDPG) which for the first time named China as a security concern clearly stating – "China, which has a strong influence on the security in this region, has been modernizing its nuclear and missile capabilities as well as naval and air forces, and expanding its area of operation at sea. We have to remain attentive to its future course."

The change in regional perception about China after the Asian financial crisis of 1997/98 reinforced Japan's concerns. In the early 1990s, China was perceived as a threat to its Southeast Asian neighbors in part due to its conflicting territorial claims over the South China Sea and past support of communist insurgency. This perception began to change with the Asian financial crisis when China resisted pressure to devalue its currency, which would have exacerbated devaluations in Thailand and Indonesia, and portrayed its decision as standing up for other Asian nations.<sup>4</sup> Chinese leaders further enunciated a doctrine of "win-win" relations, highlighting that Southeast Asians can benefit from their relationship with China even as China benefits from its relationship with them.

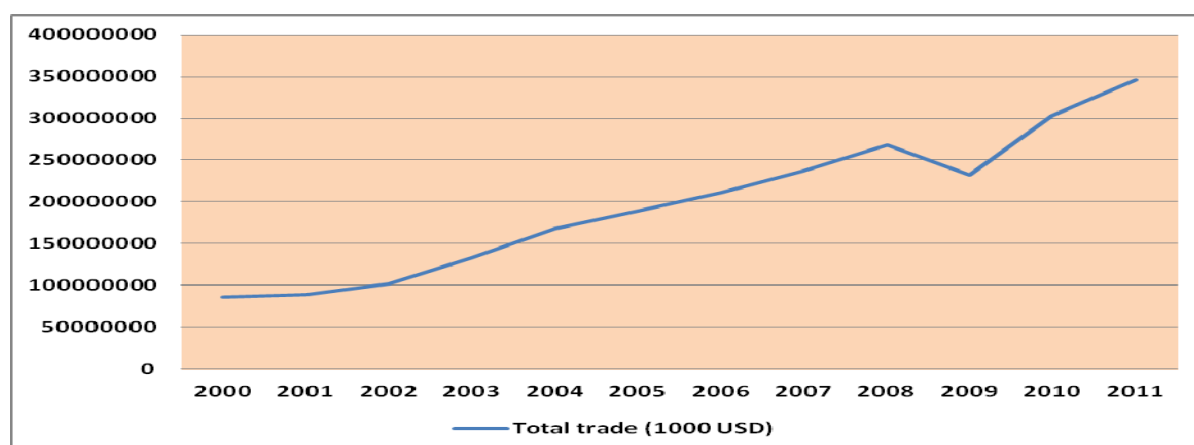
<sup>3</sup> Pei, Minxin and Swaine, Michael: "Simmering Fire in Asia: Averting Sino-Japanese Strategic Conflict" Carnegie Endowment, *Policy Brief* no. 44 (November 2005), at <http://carnegieendowment.org/files/pb44.pei.FINAL.pdf>.

<sup>4</sup> Kurlantzick, Joshua: "China's Charm Offensive in Southeast Asia", *Current History*, vol. 105, no. 692 (September 2006), at [http://www.carnegieendowment.org/files/Kurlantzick\\_SoutheastAsia\\_China.pdf](http://www.carnegieendowment.org/files/Kurlantzick_SoutheastAsia_China.pdf).

Over the next few years China ended nearly all of its border disputes and signed the Southeast Asia's Treaty of Amity and Cooperation that commits the signatories to mutual respect for sovereignty and equality. Beijing expressed commitment to creating a code of conduct on the South China Sea and enthusiastically signed bilateral cooperative agreements with several Southeast Asian states and also reversed its previous reluctance towards multilateral diplomacy. Japan felt edged out of its position as the dominant East Asian state and leader of regional integration efforts as China rapidly concluded bilateral free trade agreements (FTA) with the ASEAN states and propagated an alternative developmental model predicated on the 'Beijing Consensus'.

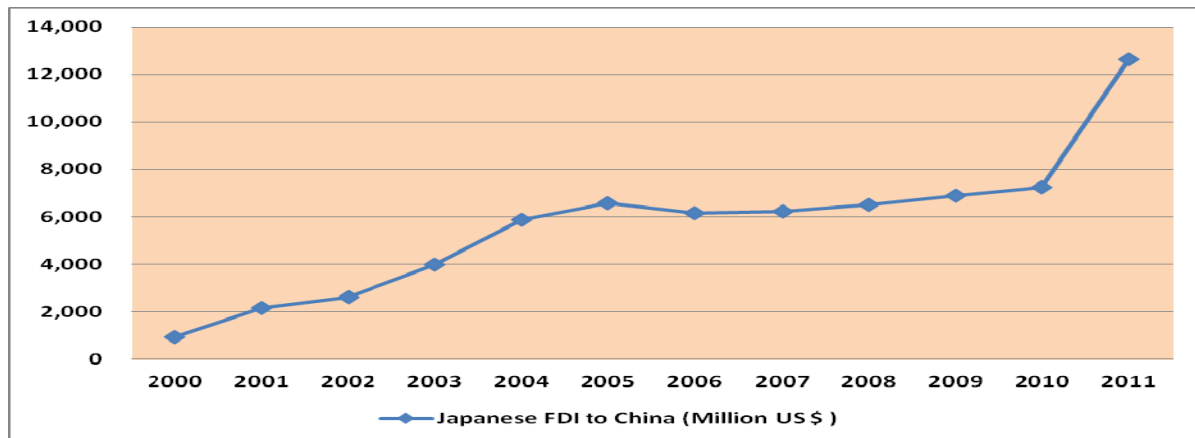
Adding to the Japanese unease about China's long-term intentions was the fact that China was narrowing the economic gap between the two countries at an impressive pace. China has been Japan's largest trade partner since 2007. On the other hand Japan was China's largest trade partner until 2003 and was surpassed by the Europe Union and United States in 2004 and then by ASEAN in 2011. China also replaced the United States as Japan's biggest investment destination in 2007 and in 2010 surpassed Japan to become the second largest global economy.

Fig 1: Japan-China Bilateral Trade



Data Source: UN COMTRADE WITS Database

Fig 2: Japan's Outward FDI to China



Data Source: Japan External Trade Organization (JETRO)

Japanese anxieties regarding ‘asymmetric interdependence weighted towards China’ seemed to come true on April 3, 2005, as angry Chinese crowds in Chengdu, Sichuan Province smashed the windows of a Japanese-owned supermarket as part of a protest against Japan’s bid for a permanent seat on the United Nations Security Council. What began as a relatively small protest in central China soon developed into a series of full-scale anti-Japanese demonstrations. Tens of thousands people, across more than twenty major cities in China took part in the largest and most sustained mass protests since those at Tiananmen Square in 1989. Citing Japan’s perceived lack of remorse for World War II atrocities, protesters vandalized Japanese restaurants and shops, damaged Japanese-made cars, and called for boycotts of Japanese goods.

Since then Japan has watched with grave concern the increase in frequency as well as level of aggression in the recurring cycles of tensions over historical animosity and territorial disputes and China’s use of economic instruments of pressure at these times. The Japanese policy of separation of economics and politics, wherein Sino-Japanese relations are “economically hot and politically cold” is under severe strain.

On 7 September 2010 a Chinese trawler captain rammed two Japan Coast Guard vessels in disputed waters. Japan detained the Chinese captain and charged him under domestic law. China responded with punitive measures including cancellation of bilateral exchanges at the provincial and ministerial level and suspended shipments of rare earth metals essential for Japanese high-tech industries. There were also mass cancellations of trips to Japan by Chinese tourists and protests in front of Japanese diplomatic missions and schools in China.

The territorial dispute over the Senkaku Islands came to a head once again last year in September 2012, when Japanese Prime Minister Yoshihiko Noda announced his government's decision to purchase three of the five islands. The islands were privately owned, but a new wave of activism, including Chinese attempts to land on the islands and a public campaign by



the Tokyo Governor Shintaro Ishihara to purchase these prompted Mr. Noda's announcement in an attempt to neutralize nationalist pressures.<sup>5</sup>

The flare-up in tensions over disputed islands once again triggered massive anti-Japanese demonstrations in Chinese cities and boycott of Japanese products. Japan's total trade with China dropped 3.3 percent in 2012, marking the first drop since 2009 and exports to China fell 10.4 percent also marking the first drop since 2009. A release from the Japan External Trade Organization (JETRO)<sup>6</sup> stated that serious decrease was seen in Japanese exports of general machines such as motors, construction and mining machines, steel and automobiles.

In particular, those of automobiles drastically fell after the September 2012 demonstrations began; in comparison with the previous year, there was an 82.4 percent drop for the month of October, the year's largest decline, and a 63 percent drop for the entire period of September to December 2012. This boycott of Japanese automobiles was one of the main factors for a decline in Japan's overall exports. While China remains Japan's largest trading partner in terms of import, export and total trade value, Japan's share of exports to China dropped to 18.1 percent dipping 1.6 points and making it only 0.6 points higher than the share of exports to the US, which was ranked second.

In addition Japanese pharmaceutical companies reported a sharp increase in products being returned from Chinese hospitals and that contract renewals were being refused. There were instances of Chinese construction companies refusing to use Japanese elevators or construction materials. JETRO also reported a slowdown of customs clearance procedures in China for Japanese imports. Beijing travel agencies reported receiving guidance from China's tourist authorities to advise against travel to Japan.<sup>7</sup>

Since then public response in China has dampened, however, an increased number of Chinese and Japanese maritime vessels now patrol in close proximity in disputed waters, heightening the risk of an accidental clash and rapid escalation of hostilities. According to U.S. government statistics, there were two violations of Japan's territorial waters in 2008, none in 2009, one in 2010, 2 in 2011, and 23 in 2012. The Japanese Air Self Defense Forces (ASDF) scrambled missions against Chinese incursions into its air defense identification zone (ADIZ) 31 times in fiscal year 2008, 38 in FY 2009, 96 in FY 2010, 156 in FY 2011, and 160 from April to December of 2012.<sup>8</sup>

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<sup>5</sup> Smith, Sheila A.: "A Sino-Japanese Clash in the East China Sea", *CFR Contingency Planning Memorandum*, no. 18, at <http://www.cfr.org/east-asia/sino-japanese-clash-east-china-sea/p30504>.

<sup>6</sup> Japan External Trade Organization (JETRO): "JETRO survey: Analysis of Japan-China Trade in 2012 and outlook for 2013", *News and Updates* (19 February 2013), at <http://www.jetro.go.jp/en/news/releases/20130219452-news>

<sup>7</sup> Details from: Przystup, James J.: "40<sup>th</sup> Anniversary: "Fuggetaboutit!", *Comparative Connections* (January 2013), at [http://csis.org/files/publication/1203qjapan\\_china.pdf](http://csis.org/files/publication/1203qjapan_china.pdf).

<sup>8</sup> Cited in Dreyer, June Teufel: "Sino Japanese Relations; The Security Perspective", Nottingham University, *China Policy Institute Blog* (18 February 2013), at <http://blogs.nottingham.ac.uk/chinapolicyinstitute/2013/02/18/sino-japanese-relations-the-security-perspective/>.



### 3. India-China Relations

As for most other countries in the region, China is a challenge for India. There is a “multiplicity of roles” that China plays vis-à-vis India. The long-standing boundary dispute between the two countries remains unresolved; China’s relationship with Pakistan remains strong; its military modernization efforts are a potential military threat; and, it is steadily increasing influence in neighbouring Nepal, Bangladesh, Sri Lanka and Myanmar. In 1998 the Indian government officially cited the Chinese threat as a rationale for its nuclear tests. On the other hand China is today India’s largest trading partner and often the diplomatic positions of the two countries converge in the global arena. Thus bilateral relations are a mixed bag of competition and cooperation.

Although India and China have held several rounds of talks since 1988 to resolve their territorial boundary dispute a resolution has remained elusive and border relations remain a serious source of friction. In fact the India-China boundary dispute is the only territorial issue that China has not resolved. Particularly in the last couple of years China has frequently and aggressively asserted its territorial claims with intrusions across the line of actual control, denial of visas to Indian citizens of the state of Arunachal Pradesh and even protesting against the Indian prime minister’s visit to Arunachal Pradesh. The latest was the three week military standoff in Ladakh in April this year that almost jeopardized Chinese Premier Li Keqiang’s visit to New Delhi.

China’s rapid expansion and modernization of its transport infrastructure across the border along with the militarization of Tibet adds to India’s concerns. Examples include the build-up of infrastructure in Tibet and Chinese plans to extend the Beijing-Lhasa railway line to Yatung just a few miles from Sikkim’s Nathu La and subsequently extend this to Nyingchi, north of the Indian state of Arunachal Pradesh, at the tri-junction with Myanmar.<sup>9</sup> China has deployed advanced aircraft including SU-27 along with Surface-to-Air anti-aircraft missiles in Tibet and conducts regular military exercises in the region. According to Indian government estimates China now possesses the capability to move more than 10,000 troops to the Indian border in twenty to twenty-five days compared to three to six months a decade back.<sup>10</sup>

Then there is the issue of China’s relations with India’s neighboring countries. Sino-Pakistan ties gained particular momentum after the 1962 Sino-Indian war, when China and Pakistan signed a boundary agreement recognizing Chinese control over portions of the disputed Kashmir territory. Since then, strong bilateral relations between them have remained a priority for both countries and Beijing has provided extensive economic, military, and technical assistance to Pakistan over the years. China is Pakistan’s largest defense supplier and Pakistan’s military modernization is critically dependent on Chinese assistance as evident in China supplying Pakistan with short-range M-11 missiles and helping Pakistan develop the Shaheen-1 ballistic missile.<sup>11</sup> Indeed, notwithstanding Chinese restraint in the 1999 Kargil conflict the widely held view in India is that, in the context of continued Chinese provision of civilian and military resources to Pakistan to balance Indian power in South Asia, India must be prepared for a potential two-front war theater.

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<sup>9</sup> Pant, Harsh V.: “China and India: A Rivalry Takes Shape”, *Eurasia Review* (15 June 2011), at <http://www.eurasiareview.com/15062011-china-and-india-a-rivalry-takes-shape-analysis/>.

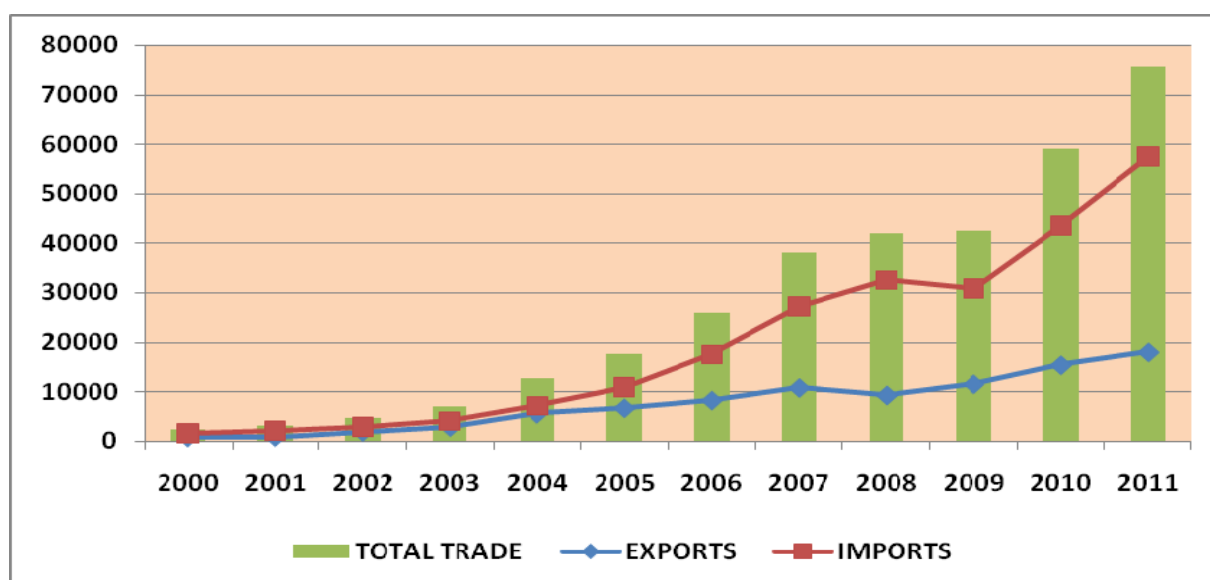
<sup>10</sup> *Ibid.*

<sup>11</sup> “Pakistan Profile”, *Nuclear Threat Initiative* (February 2011), at [http://www.nti.org/e\\_research/profiles/Pakistan/index.html](http://www.nti.org/e_research/profiles/Pakistan/index.html).

In addition China's influence in neighbouring Nepal, Bangladesh, Sri Lanka and Myanmar is also substantial with steadily increasing military ties and economic interaction. Chinese arms supplies to these countries and its involvement in infrastructure projects of strategic significance are extremely sensitive issues for India. As Kanwal Sibal points out China's economic relations with India's neighbors are essentially strategic in nature.<sup>12</sup> The focus is on building strategic infrastructure and not so much on assistance aid or direct investment and the balance of trade is also in favor of China. The active Chinese participation in the development of deep-sea ports in the littoral states in India's neighborhood – Myanmar, Bangladesh, Sri Lanka and Pakistan is viewed by Indian analysts as a “string of pearls” strategy of China to encircle and contain India.

At the same time, China is currently India's largest trading partner and both the sides have targeted 100 billion US\$ bilateral trade by 2015. Total bilateral trade was US\$ 67.82 billion in 2012.

Fig 3: India's Trade with China (US\$ million)



Data Source: Ministry of Commerce and Industry, India

However, as in the case of Sino-Japanese relations bilateral economic relations with China are beginning to worry the Indian side. China accounts for a fifth of India total trade deficit of US\$ 190.9 billion with the world. If oil is excluded then it accounts for almost half. In 2012 the trade deficit with China touched a new high of US\$ 40 billion.

<sup>12</sup> Kanwal Sibal “String of Pearls or A Garrotte”, *VIF India* (6 August 2012), at <http://www.vifindia.org/article/2012/august/06/string-of-pearls-or-a-garrotte>.



Fig. 4: India's Trade Deficit with China (US\$ billion)

Trade Deficit in US\$ billion	
2006-07	<b>9.15</b>
2007-08	<b>16.27</b>
2008-09	<b>23.14</b>
2009-10	<b>19.20</b>
2010-11	<b>23.86</b>
2011-12	<b>39.65</b>

Data Source: DGCIS, Ministry of Commerce and Industry, India

Also challenging from India's point of view is that the bilateral trade framework that has emerged has India primarily exporting iron ore and other raw materials while China's exports are mainly finished goods and machinery. India wants to diversify its export basket to China with manufactured goods, pharmaceuticals and IT.

The overall confidence deficit between India and China has been the main reason for the low level of Chinese foreign direct investment (FDI) in India. As per the latest available figures FDI from China is less than 0.5 percent in India. There have been very visible cases of Chinese firms wanting to invest in telecom etc which were prevented from doing so. There is also strong domestic opposition on pursuing a bilateral free trade agreement (FTA) with China. Energy also is increasingly becoming a source of friction between China and India. They are two of the world's fastest-growing energy consumers, with China importing about 50 percent of its energy needs and India importing 70 percent. There are several examples in recent years of bidding wars between the two in the competition for energy sources.



At the regional level, India's Look East Policy has regularly confronted the China challenge, both in relation to the moves towards regional economic integration and the expansion of India's maritime presence in the east.

First, from India's perspective the region has emerged as a critical destination for exports as well as a significant source of imports. It's interest in being an integral part of East Asian economic integration is thus obvious. However, in this regard China has been a major obstacle.

Fig. 5: India's Export Import Data for East Asia 2011-12 (% share)

Region	Exports	% Growth	Imports	% Growth
NE Asia	14.8	21.5	20.1	29.5
ASEAN	12.0	43.3	8.6	38.9

Data Source: Ministry of Commerce and Industry, India

While not overtly opposing India, China has supported the ASEAN+3 process as "the main vehicle" and "the main channel for East Asian cooperation". Despite several studies showing greater welfare gains for an ASEAN+6 FTA China stressed that the sequencing of FTA consolidation in East Asia should be in the form of the East Asian Free Trade Agreement (EAFTA) comprising ASEAN+3 (China, Japan and South Korea) before opening up to other countries" and that it would be open to participation by other members of East Asia Summit (Australia, New Zealand and India) in an "appropriate time". In fact the current Chinese active support for a Regional Comprehensive Economic Partnership (RCEP) is more a strategic initiative to counter the US led Trans Pacific Partnership (TPP) rather than any warming towards a broader regional FTA.

The second issue where Sino-Indian strategic complexity manifests regionally is with regard to India's maritime moves to the East of Malacca Straits. It is due to rising concerns with China's "string of pearls" strategy in the Indian Ocean that have led to a more aggressive Indian naval posture. India has taken to dispatching its ships on forward presence missions designed to "show the flag" in the South China Sea, a maritime domain that China claims exclusively as its own. Bilateral exercises have been undertaken in the South China Sea with the navies of Singapore, Vietnam, and the Philippines. The Indian navy has also initiated plans to bolster its forces deployed in the east. In 2005, a Far Eastern Naval Command was established at Port Blair in the Andaman Islands, located midway between the Bay of Bengal and the Straits of Malacca, a key chokepoint linking the Indian Ocean to the South China Sea. Airfields in the Andamans bring the straits, as well as much of the South China Sea, within the operational radius of India's frontline fighter aircraft. In fact the Prime Minister of India, Prime Minister Manmohan Singh himself has asserted that India's strategic footprint covers Southeast Asia and beyond.



#### **4. The Evolution of Japan-India Strategic Partnership**

In the year 2000 when Japanese Prime Minister Mori visited India *The Global Partnership between Japan and India in the 21st Century* was announced a term which had previously been used by Japan only to describe its relations with the United States. The first comprehensive bilateral security dialogue was held in Tokyo in July 2001 and in October 2001 Japan decided to lift the economic sanctions it had imposed after India's nuclear tests in 1998. Since then, a multitude of Joint Statements and dialogues have added substantive layers to this strategically oriented partnership. In 2006 it was decided to establish a *Strategic and Global Partnership between Japan and India* that emphasized contributing to greater regional peace and stability via closer political and diplomatic coordination on bilateral, regional, multilateral and global issues and stronger defense relations. It proposed, among others, (a) holding annual summit meetings between the top leaders of the two countries, and (b) institutionalizing strategic dialogue at the level of foreign ministers.

The prelude to the *Strategic and Global Partnership between Japan and India* was Japanese Foreign Minister Taro Aso's speech<sup>13</sup> stating Japan's hope to build an "arc of freedom and prosperity". Presenting it as a new pillar in Japanese diplomacy Mr. Aso spoke of this sweeping arc stretching from Northeast Asia to Central Asia and the Caucasus, Turkey, Central and Eastern Europe and the Baltic states where Japan would serve as an "escort runner" through diplomacy that emphasizes values freedom, democracy, and respect for human rights and the rule of law. To this end Japan would actively work with other countries that share the same beliefs.

In April 2007, the first ever trilateral naval exercises were held between the United States, Japan and India in the Western Pacific and in August 2007, the annual India-US Malabar naval exercise was transformed into large-scale multilateral exercises in the Bay of Bengal involving the United States, India, Japan, Australia and Singapore. Soon after Japan and India unveiled the *Roadmap for New Dimensions to the Strategic and Global Partnership between Japan and India* clearly stating that "a strong, prosperous and dynamic India is in the interest of Japan and a strong, prosperous and dynamic Japan is in the interest of India and recognized that Japan and India share a congruence of interests."<sup>14</sup>

The roadmap envisioned deepening and broadening of the strategic dialogue as well as strengthening defense exchange and cooperation between the coast guards. The issues of common concern that were highlighted included the East Asia Summit (EAS), stable development of South Asia, promotion of multi-layered frameworks for regional cooperation, UN reform, progress of Six Party Talks on denuclearization of the Korean peninsula, and Japan-India civil nuclear energy cooperation.

In addition visiting Japanese Prime Minister Shinzo Abe presented his views on the future of Japan and India in an address at the Indian Parliament.<sup>15</sup> The address titled *Confluence of the Two Seas* stated:

*The Pacific and the Indian Oceans are now bringing about a dynamic coupling as seas of freedom and of prosperity. A "broader Asia" that broke away geographical boundaries is now beginning to take on a distinct form. Our two countries have the ability -- and the*

<sup>13</sup> Text of Mr. Taro Aso's speech, at <http://www.mofa.go.jp/announce/fm/aso/speech0611.html>.

<sup>14</sup> Text of the Joint Statement, at <http://www.mofa.go.jp/region/asia-paci/pmv0708/joint-2.html>.

<sup>15</sup> Text, at <http://www.mofa.go.jp/region/asia-paci/pmv0708/speech-2.html>.



*responsibility -- to ensure that it broadens yet further and to nurture and enrich these seas to become seas of clearest transparency.*

Further, Mr. Abe emphatically stated that faced with this wide, open, broader Asia, it was incumbent upon the two democracies, Japan and India, to carry out the pursuit of freedom and prosperity in the region

The address followed the “assertive diplomacy” proposed by Mr. Abe in his book *Towards a Beautiful Country* published in 2005. In the book he had stated that “It is of crucial importance to Japan’s national interest that it further strengthen ties with India,” adding, “It would not be a surprise if in another 10 years, Japan-India relations overtake Japan-US and Japan-China relations.” Drawing India into the ambit of the new Japanese grand strategy, Mr. Abe had proposed a quadrilateral strategic dialogue between Tokyo, Washington, Canberra and New Delhi to promote their shared values of freedom and democracy in Asia.

The next year, when Indian Prime Minister Manmohan Singh visited Japan in October 2008, the joint statement read as *Advancement of the Strategic and Global Partnership between India and Japan*. The two countries also issued the *Joint Declaration on Security Cooperation between Japan and India* wherein it was decided to create a comprehensive framework for the enhancement of security cooperation. The declaration affirmed “similar perceptions of the evolving environment in the region and the world at large” and on signing the declaration, the Japanese and Indian Prime Ministers asserted that the strategic partnership between the two countries would become “an essential pillar for the future architecture of the region”.<sup>16</sup> The only other country with which Japan has signed a similar declaration is Australia in 2007.

With the coming of the Democratic Party of Japan (DPJ) government in Tokyo there were concerns that Japan-India ties may lose importance. Not only was India not mentioned in the DPJ manifesto, there was talk of pursuing a more mature a more ‘mature’ alliance in which Japan is less dependent on and deferential to the United States and advocacy of an “East Asian Community”. However the new Japanese Prime Minister Yukio Hatoyama kept the commitment of the two countries to an annual summit and visited India in December 2009 signaling bipartisan support for Japan-India relations. The *Action Plan to advance Security Cooperation based on the Joint Declaration on Security Cooperation between Japan and India* was adopted during this visit. In June 2012 Japan and India conducted their first bilateral exercise off the coast of Tokyo.

Japan and India strategic partnership appears set for a new high after Mr. Shinzo Abe once again becoming the Prime Minister of Japan. Signaling strengthened intent in this regard, Mr. Abe has spoken of *Asia’s Democratic Security Diamond*.<sup>17</sup> In his words:

*I envisage a strategy whereby Australia, India, Japan, and the US state of Hawaii form a diamond to safeguard the maritime commons stretching from the Indian Ocean region to the western Pacific. I am prepared to invest, to the greatest possible extent, Japan’s capabilities in this security diamond.*

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<sup>16</sup> Brewster, David: “The Australia–India Security Declaration: The Quadrilateral Redux?” *Security Challenges*, vol. 6, no. 1 (Autumn 2010), pp. 1-9, at <http://www.securitychallenges.org.au/ArticlePDFs/vol6no1Brewster.pdf>.

<sup>17</sup> See: Abe, Shinzo: “Asia’s Democratic Security Diamond”, *Project Syndicate*, 27 December 2012, at <http://www.project-syndicate.org/commentary/a-strategic-alliance-for-japan-and-india-by-shinzo-abe>.



Deputy Prime Minister Taro Aso has also recently talked of the need for Japan to re-think the self-imposed ban on the export of defense equipment and technologies and for Japan and India to become net providers of regional security as Asia's two largest maritime democracies.<sup>18</sup> Indeed, media reports suggest that during the upcoming visit of Indian Prime Minister Manmohan Singh to Tokyo agreement will be signed for the sale of amphibious aircraft used by Japan's Self Defense Forces and developed by ShinMaywa Industries with the proviso that the aircraft be used for non-military purposes such as search and rescue missions.

## **5. The United States, Japan and India Trilateral**

The rise of China has created simultaneous trends of competition and cooperation in both Sino-Japanese and Sino-Indian relations and no doubt the worsening Sino-Japanese security relations have significantly impacted the course of the Japan-India strategic partnership. However, as one delves deeper, linear correlations give way to a strategic web of complex interaction. Notably the Japan-India partnership must be seen in tandem with Indo-US engagement.

It has almost become the norm to speak of India and the United States as 'natural allies' as bilateral relations have undergone significant transformation over the past decade. In the past, Indo-US relations were marked by divergent worldviews. In particular, relations were deeply strained in the aftermath of India's nuclear tests in 1998. The commencement of a series of intense discussions between the two sides at the level of Indian Foreign Minister Jaswant Singh and U.S. Deputy Secretary of State Strobe Talbott over the next two years resulted in a slow normalization of the relationship.

Despite Japan strong stance on India's nuclear tests, the two countries were also engaged in talks. Hints of the rethinking in the Japanese government emerged during "meaningful meetings" between Indian External Affairs Minister Jaswant Singh and Japanese Foreign Minister Masahiko Komura in Singapore in July 1999 on the sidelines of the ASEAN meeting and in September 1999 in New York. In July, the two foreign ministers affirmed the "importance of developing Japan-India relations further as we go into the 21st Century". In the meeting in New York, they underlined the "importance of developing our bilateral relations through dialogue". During Mr. Jaswant Singh's subsequent visit to Tokyo in November 1999, he was quoted saying "I have successfully accomplished my mission which was to end the present state of frigidity," and that the Comprehensive Test Ban Treaty "is now more a conceptual hurdle than an actual hurdle," and no longer linked to normalization of ties.<sup>19</sup> Indeed Japanese Minister Mori's visit to India in August 2000 followed the visit to India by US President Bill Clinton in March 2000, which was the first by a US President to India after more than twenty years and marked a major change in US policy. Japan's October 2001 decision to lift all nuclear related economic sanctions came soon after the 9/11 terrorist attacks in the United States.

<sup>18</sup> Text of Mr. Taro Aso's lecture, at [http://www.in.emb-japan.go.jp/PDF/aso\\_lecture.pdf](http://www.in.emb-japan.go.jp/PDF/aso_lecture.pdf).

<sup>19</sup> Arora, Ramesh: "Normal ties with Japan 'restored': Jaswant Singh", *Rediff*, 26 November 1999, at <http://www.rediff.co.in/news/1999/nov/26jap1.htm>.



Since then Indo-US relations have further strengthened and the ambit of India's importance to US interests has steadily widened. Today the geopolitical importance of a liberal, democratic and economically rising India underlines most contemporary US global strategic formulations. The view that has gained credence is that the United States has to "strengthen political, economic and military-to-military relations with those Asian states that share our democratic values and national interests. That spells India".<sup>20</sup> In the words of Nicholas Burns, US Under Secretary of State for Political Affairs<sup>21</sup> - *As we Americans consider our future role in the world, the rise of a democratic and increasingly powerful India represents a singularly positive opportunity to advance our global interests. There is a tremendous strategic upside to our growing engagement with India. That is why building a close U.S.-India partnership should be one of the United States' highest priorities for the future. It is a unique opportunity with real promise for the global balance of power.* Since 2004, Washington and New Delhi have been pursuing a "strategic partnership". In 2005, the United States and India signed a ten-year defense framework agreement to expanding bilateral security cooperation. The high point of course was the 2008 peaceful nuclear cooperation agreement between the two countries that dramatically reversed three decades of US nonproliferation policy.

At the highest level has been the statement of US President Barack Obama when he visited India in November 2010 that *"The United States does not just believe, as some people say, that India is a rising power; we believe that India has already risen. India is taking its rightful place in Asia and on the global stage. And we see India's emergence as good for the United States and good for the world."* Along similar lines, in May 2011, US Assistant Secretary of State Robert Blake summarized U.S.-India relations under the rubric of four major "agendas"<sup>22</sup>:

- an *innovation* agenda that includes collaboration on energy security, civil nuclear cooperation, agriculture, space, climate, and other sciences;
- a *security* agenda that includes military-to-military relations, arms sales, and nonproliferation;
- a *people-to-people* agenda that encourages civic engagement, and open governance and democracy initiatives; and
- a *growth* agenda focused on increasing bilateral trade and investment by removing barriers to both.

Clearly in the initial phase Japan's strategic engagement with India was prodded by the United States. Consider Japanese Foreign Minister Yuriko Kawaguchi's statement<sup>23</sup> in January 2003:

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<sup>20</sup> "Statement by the U.S. ambassador to India, Robert Blackwell", cited in: "U.S. and India consider Asian NATO", *Newsmax*, 29 May 2003, at <http://archive.newsmax.com/archives/articles/2003/5/29/162032.shtml>.

<sup>21</sup> Burns, R. Nicholas: "America's Strategic Opportunity With India" *Foreign Affairs* (November/December 2007).

<sup>22</sup> Blake, Jr. Robert O.: "The Current State of U.S.-India Cooperation and Prospects for the Future", Assistant Secretary, Bureau of South and Central Asian Affairs, US State Department (13 May 2011), at <http://www.state.gov/p/sca/rls/rmks/2011/163312.htm>.

<sup>23</sup> Text, at <http://www.mofa.go.jp/region/asia-paci/fmv0301/india.html>.



*Within the new strategic environment, India has been working to strengthen its ties with the United States and other major countries with which it had had limited engagement during the Cold War era, and its recent advances in defense cooperation with the United States are of particular note. This Indian initiative will contribute to peace and stability in Asia. Japan is likewise helping to foster stability and prosperity in the Asian and Pacific region through the Japan-U.S. Alliance.*

The placing of bilateral relations with India in the wider strategic context of Asia came only in 2006 with the *Strategic and Global Partnership between Japan and India*. Only in June 2012 did Japan and India conduct their first bilateral exercise off the coast of Tokyo. It is in line with rising importance of India in US strategic formulations that Japan assessment of the usefulness of India as a strategic partner has increased. It is for nothing that the consistent emphasis on democracy as a common core value and maritime security as a common objective underpins Japan-India strategic partnership.

Indeed after India and the US launched a Strategic Dialogue on the Asia-Pacific in 2010 “to ensure that the world’s two largest democracies pursue strategies that reinforce one another” the United States hosted the first US-Japan-India Trilateral in December 2011. Reflecting this objective was the Joint Statement of the U.S.-Japan Security Consultative Committee meeting in June 2011 which stated an alliance common strategic objective to - “Welcome India as a strong and enduring Asia-Pacific partner and encourage India’s growing engagement with the region and participation in regional architectures. Promote trilateral dialogue among the United States, Japan, and India.”<sup>24</sup> Since then four such dialogues have taken place “to exchange views on a wide range of regional and global issues of mutual interest” marking the beginning of a series of consultations among the three governments, “who share common values and interests across the Asia-Pacific and the globe”.

## **6. The Economic Imperatives of Japan-India Relations**

From a bilateral standpoint the most noteworthy and tangible improvements in Japan-India relations have been in the sphere of economic relations and it is here that the China factor is directly evident.

Economic relations between India and Japan in recent years have gathered significant momentum after years of stagnation. According to the latest figures available, total bilateral trade in 2012-13 was approx US\$ 18.76 billion. The main items of India’s exports to Japan are iron ore, metal products, food products including marine products, raw materials and chemical products. The main items of Japan’s exports to India are general machinery, metal products, electrical machinery, metal products and transport machinery.

The institutional framework to further accelerate and consolidate business activities between India and Japan has been put in place with the Comprehensive Economic Partnership Agreement (CEPA) that came into effect in August 2011. As part of the CEPA, India will eliminate tariffs on 90 per cent of its imports from Japan, and Japan will remove tariffs on 97 per cent of Indian imports on a trade value basis within 10 years. In addition the CEPA relaxes barriers on investment, trade in services and movement of professionals. With tariffs

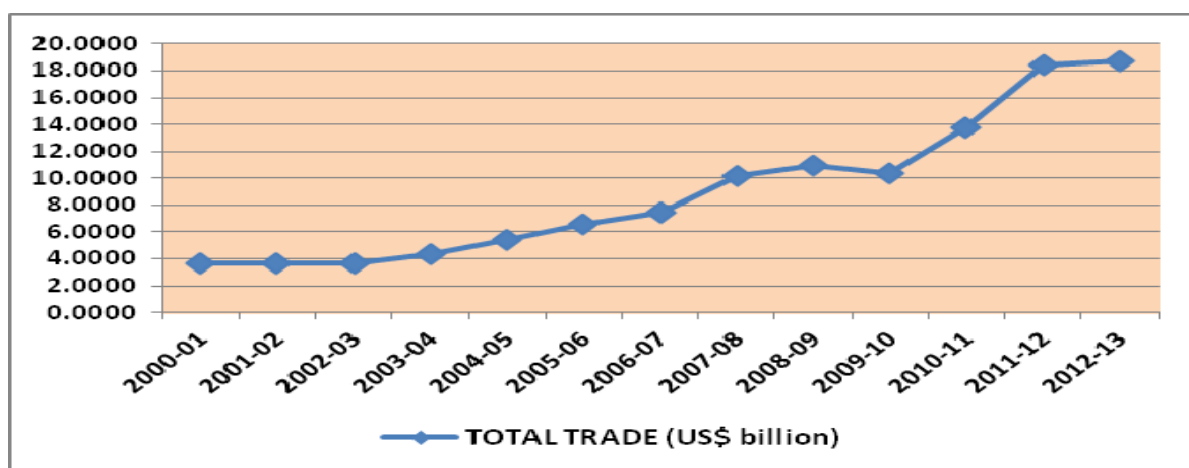
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<sup>24</sup> Text, at <http://www.state.gov/r/pa/prs/ps/2011/06/166597.htm>.

slashed on more than 8,000 products including generic drugs, apparel, agricultural products and machinery the bilateral trade between both countries is expected to reach US\$ 25 billion by 2014.

It is soon after the anti-Japanese demonstrations that the Prime Ministers of Japan and India directed that the Japan-India Joint Study Group (JSG) be launched by June 2005. The JSG was tasked to comprehensively consider means to strengthen economic relations between Japan and India and submit its report within a year. The JSG recommended that the two countries launch inter-governmental negotiations to develop CEPA. It is also in the context of Chinese suspension of shipments of rare earths to as a means to pressure Japan in the 2010 flare up over the Senkaku islands that Japan and India Joint Statement that year recognized the importance of rare earths and rare metals for future industries and it was agreed to explore the possibility of bilateral cooperation. Though the Chinese suspension was temporary Japan is looking to diversify the procurement of rare earths essential for its high tech electronics industry and Japan in India have in 2012 signed a memorandum of understanding to enable the import of rare-earth minerals from India.

Fig 6: India - Japan Bilateral Trade

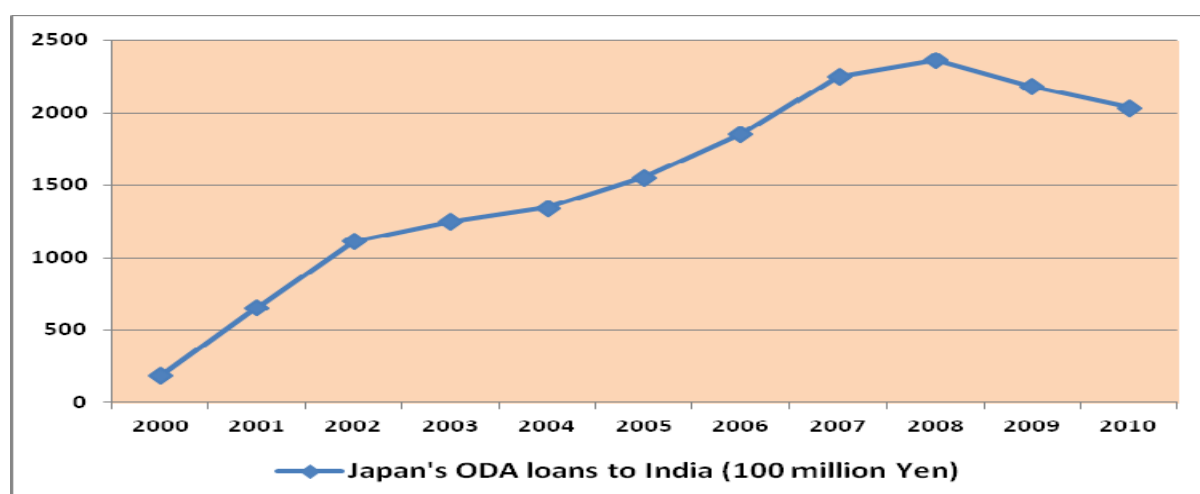


Data Source: Export-Import Databank, Department of Commerce, Govt. of India

Importantly, Japan is also currently India's largest bilateral developmental assistance donor and India has been the top recipient of yen loans from Japan since 2003 surpassing China, which had been holding that position for many years. In fact as the argument that China was an economic threat gained momentum in Japan correspondingly ODA disbursements to India increased. The share of Japanese development assistance in total ODA received by India has been significantly increasing over the past few years to stand at 42 percent in 2010.



Fig7: Japan's Overseas Development Assistance (ODA) to India



Data Source: Embassy of Japan, New Delhi

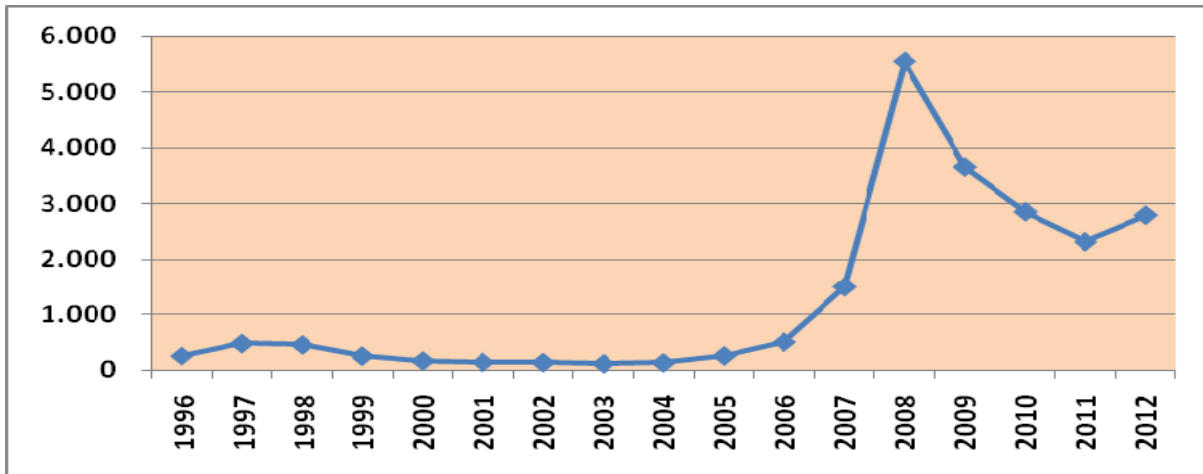
Given that Japan's ODA tends to be focused on the economic infrastructure needs of recipients the major sectors attracting the attention of Japanese ODA in China and India have also been largely similar. In China, from April 1980 - December 2007, 48 percent of Japan's ODA projects belonged to the transportation, electric power and gas sector. In the case of India, from March 1976 – March 2012, 50 percent of the projects have belonged to the transportation, electric power and gas sector.

In India, as part of the Japan-India Special Economic Partnership Initiative (SEPI) several high visibility flagship projects like the Delhi-Mumbai Industrial Corridor (DMIC) have been initiated. The DMIC is projected to attract foreign investment worth about US\$ 92 billion and will include cooperation in development of sea ports on the west coast and industrial estates and Special Economic Zones with high quality physical and social infrastructure through collaboration between private and governmental sectors of India and Japan. The Japanese government has announced intention to make available for the DMIC projects Japan's public and private finance totaling US\$ 4.5 billion in the next five years.

However, as shown by Hidemi Kimura and Yasuyuki Todo, not only does Japan's ODA have a positive "infrastructure effect" it also has a positive "vanguard effect" on Japanese FDI.<sup>25</sup> Currently, Japan is the fourth largest investor in India with a share of about eight per cent in total cumulative inflows of foreign direct investment (FDI) between April 2000 and February 2013. As shown in Fig 3, in 4 years the number of Japanese companies with business operations in India has more than doubled. The sectors attracting Japanese investment are automobile industry, electrical equipment, trading, service sector (financial & non-financial), and telecommunications.

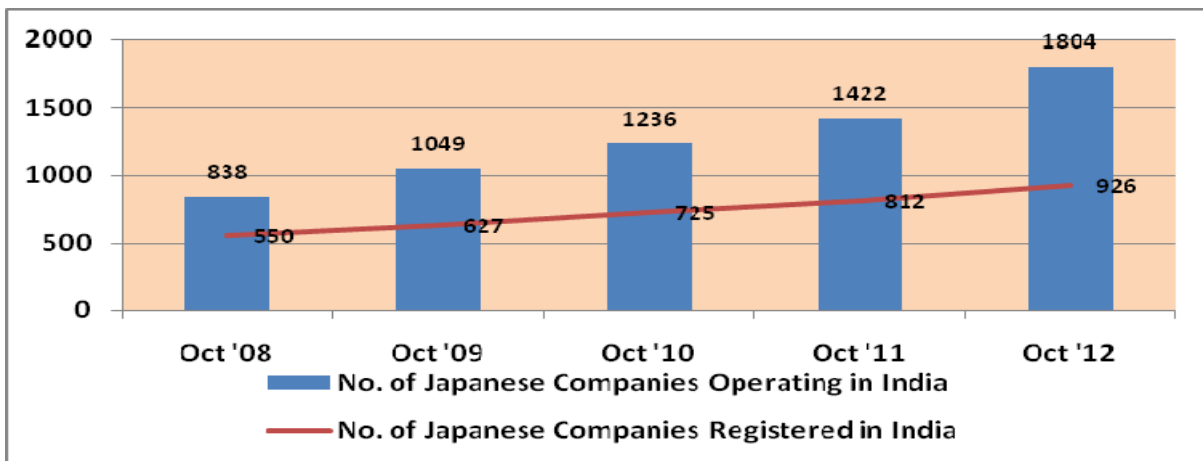
<sup>25</sup> See: Kimura, Hidemi and Todo, Yasuyuki: "Is Foreign Aid a Vanguard of FDI? A Gravity-Equation Approach" RIETI Discussion Paper Series 07-E-007 (February 2007).

Fig 8: Japanese FDI in India (US\$ million)



Data Source: Japan External Trade Organization (JETRO)

Fig 9: Number of Japanese Companies in India



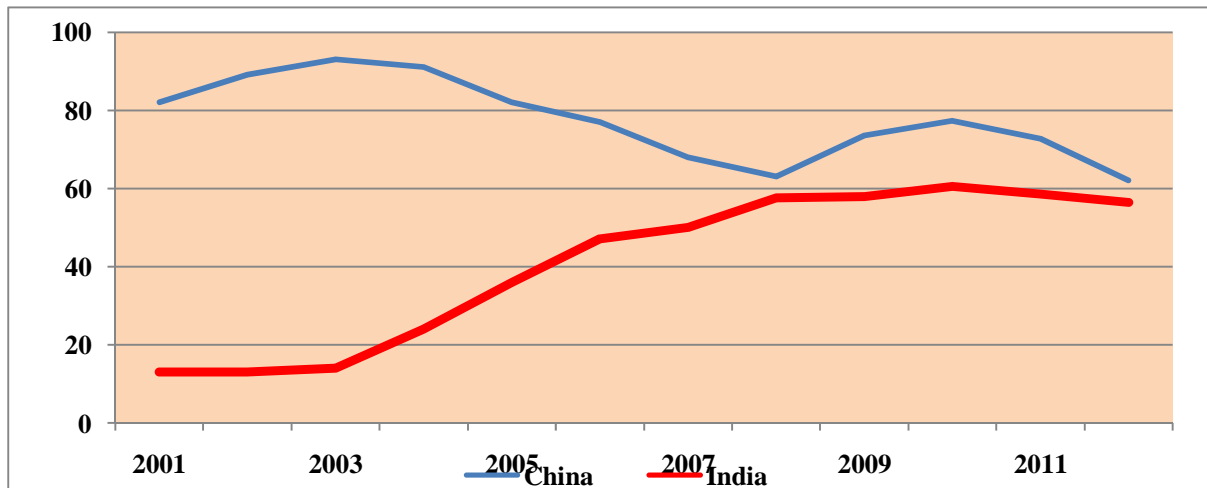
Data Source: Embassy of Japan, New Delhi

Of course several factors have also contributed to the changing Japanese companies' perception of the Indian economy. These include India's economic growth despite the global economic downturn; domestic demand; projections of expansion of India's working population aged 15-64 over the long term; strengthening ties with other East Asian economies particularly South Korea; and geographically strategic position of India to develop as a production and export base for the growing market in the Middle East and Africa. However, increases in ODA disbursements are indicative of Japan's economic interest in India and have also been an important determinant of increasing Japanese FDI inflows into India. Using

At the level of the private sector also the worsening Japan-China relations have had an impact on the increasing interest in India. Since 2005 the results of the annual survey of Japanese manufacture's overseas business operations conducted by the Japan Bank for

International Cooperation (JBIC) have rated India as the 2<sup>nd</sup> most promising investment destination after China in the next ten years. And in the backdrop of recent tensions with China, the 2012 JBIC survey shows that India has overtaken China as the most attractive investment destination in the next 10 years. In terms of the medium term of the next three years China is still the most attractive market but the gap between China and India has substantially reduced.

Fig 10: Japanese Investors Perception of Promising Countries for Overseas Business (3 years)



Data Source: Source: JBIC's Survey Report, December 2012

When specifically questioned about China the December 2012 survey<sup>26</sup> states:

- Two out of every three companies say that their business operations in China have been negatively impacted by the recent anti-Japanese demonstrations.
- With regard to future operations in China, 55.7 percent respondents say that although they are yet to decide their direction they feel the need to monitor the situation and act cautiously.
- With regard to the vision for future operations in China and the Chinese market, 74.4 percent say that diversifying risk to other countries/regions is important.

## 7. Concluding Remarks

Japan is no longer complacent about China's rises. It is increasingly seeing economic relations with India as an insurance policy and a critical component of its economic diversification strategy to reduce dependence on the Chinese market. At the same time Japan continues to be firmly committed to the alliance with the United States as the primary vehicle

<sup>26</sup> See Nishizawa, Toshiro: "How Could we Interpret JBIC's FDI Survey Results", *ICRIER* (9 March 2013), at <http://www.icrier.org/pdf/nishizawa09mar13.pdf>.



to advance its national security. The strategic partnership with India is still largely ideational. It is the vision emanating from Washington linking India, Japan and the United States in the realm of Asian security that has stimulated Japan's politico-strategic initiatives involving India.