



## **India's 'Act East Policy' Towards Japan**

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### ***Abstract***

*Japan's advancement in the technological sector has strengthened its resilient economic and cultural cooperation with India. The changing global environment in the Asian affairs, the rise of China in the Southeast and East Asian countries, the rising power of the US in the Indo-Pacific has driven India and Japan in enhancing better economic cooperation and play a driven role in the role of a balancer in the Asian politics. India's foreign policy towards Japan witnesses fundamental changes. This paper examines India's growing relation with Japan in terms of its economic, investment and India's interest in strengthening its 'Act East Policy' with Japan. It also highlights the significance of Japanese companies in improving its economic outlook in India.*

**Keywords:** *India, Economy, Act East Policy, Trade Flow, Investment.*

### **Introduction**

The significance of Japan in India's foreign policy can be traced back to the 6<sup>th</sup> century when Buddhism set its foot in Japan. Indian culture had been amalgamated through Southeast Asia and Northeast Asia by traders. Thus, Indian traders play pivotal role in propagating Hinduism, Buddhism and Islam to the other parts of Asia. Indian culture also put great influence upon the Japanese art, music, and literature. This brought closeness between India and Japan and both shared a common feeling of brotherhood. This proved that India has been turning towards the East since earliest times although India chooses to remain non-aligned during the Cold War. The breakdown of the Soviet Union left India with no powerful ally and this led India to develop a strong bilateral cooperation with the Southeast and East Asian countries at a stance. The close relation between India and Japan resulted in the growing relation driven by peacekeeping, trade flow and investment relations.

Thus, the relations between Indo-Japan began in 1894 when India was still under the British Empire and Japan signed a trade agreement which increased the cotton trade. These

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open a new trade route between India and Japan through ocean transport.<sup>†</sup> It was because of the cooperative nature of Indian and Japanese economies that developed during the pre- Cold War years as Japanese senior observer advocated that

*India's position clearly contrasted with that of the UK and Australia, which showed extreme caution against Japan's post-war recovery as a revival of competitive economic power....Independent India, on the contrary envisaged the Japanese economic recovery not in a competitive but in a more complementary perspective.<sup>‡</sup>*

After India attained independence, Jawaharlal Nehru was very much attracted to the idea of the unity of Asian countries and partnership. During this period, Nehru focused on unity among the newly emerging nations in Asia and to encourage them to free themselves from Western colonialism and imperialism so as to take away Western colonialism in Asia, Nehru gave support to other Asian countries in their fight for independence. Likewise, Nehru reacted intensely when the Dutch forces invaded Indonesia in July 1947 to control the Indonesian armed upheaval after Japan's overthrow in the Second World War.<sup>§</sup>

India following its independence established more formal relations through the signing of the 'Treaty of Peace and friendship' with Japan in 1952. And the Official Development Assistance (ODA) that India received from Japan since 1958 built a strong bond between India and Japan in developing formal trade relations during the Second World War. However, India could not develop formal diplomatic relations with Japan during the Cold War years as India focused on socialism and established strong relations with the Soviet Union thereby receiving assistance from the Soviet Union.

But it is evident that there was low presence of Japanese companies in the Indian market during the Cold War because of the restrictive foreign private investment policy given by the Indian law as foreign companies could have similarity assets of only up to 40 per cent. However, Japanese companies were not totally absent from the Indian market completely. Srabani Roy Choudhury points out that few Japanese companies had avoided the Licence Raj system. Likewise, Honda was operating with its Indian partner Hero and was doing business in India. By the 1980's some relaxations were made in the foreign investment policy and this resulted in the setting up of Maruti, a central government joint venture with Suzuki Motors of

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<sup>†</sup> Sareen, TR. (2007). 'India and Japan in Historical Perspective' in Rajaram Panda and Yoo Fukuzawa (eds) in India and Japan in Search of Global Roles. New Delhi: Promila and Company Publishers. p. 30

<sup>‡</sup> Sato, Hiroshi. (2005). 'India Japan Peace Treaty in Japan's Post-War Asian Diplomacy'. Journal of the Japanese Association for South Asian Studies. Vol 17. 2005. Accessed on 3 June, 2020

<sup>§</sup> Mun, See Chak. (2009). 'India's Strategic Interest in Southeast Asia and Singapore'. New Delhi: MacMillan Publishers

Japan in 1982. A crop of Japanese companies also gained entry through technical collaborations or by getting exemptions.\*\*

### **India under “Look East Policy”**

The end of the Cold War showed a paradigm shift in India’s foreign policy due to its open market and the disappearance of the USSR left India friendless in the international field when continuing economic and political critical situations were fast overwhelming India during the Cold War. This marked the dissolution of India’s foreign policy during the Cold War and the effort that it put to globalise its economy with ASEAN has found a new path under its ‘Look East Policy’. India’s interest in Northeast Asia is evident from the visit of the then Prime Minister Narasimha Rao to Japan in 1992 to boost better economic and investment flow. Following its “Look East Policy” India developed closer relations with the East by focusing on economic development. Through his visit Rao had worked in partnership with economic venture capitalists and instructed business groups to plan India’s prospective as a destination for outlay and a market for trade. Through LEP India has made effective economic enterprise in terms of trade, investment and technology. India has been able to improve and recapture with these regions under the LEP model and the Indian economy has been re-established.††

India’s renewed focus on Southeast Asia under “Act East Policy” has been keen on warming up its ties with Southeast Asia and it emphasized more on trade and economic linkages. The rebranded ‘Act East’ highlights India’s larger commitment with Southeast Asian and the East Asian countries so as to expand its role in the economic spheres.‡‡ Thus, Act East policy pursues to restore and reinforce India’s relationship with ASEAN nation states. Under the evolving relations between India and ASEAN, India has been establishing subtle endeavours with the East Asian countries. Thus, a Japanese journalist Yoichi Funabashi acknowledges that when Japan “still found itself surrounded by hostile nations, India offered it an olive branch, giving Japan coal and steel when others would not and reaching out the hands of friendship”.§§ By enhancing its trade flow, India has been one of the leading suppliers of iron ore to Japan till 1980’s and this was later outnumbered by Australia and Brazil.

### **Economic Partnership**

India’s open market has reassured Japan in opening new trade routes and economic cooperation became the main pivotal point so as to establish diplomatic relations. On the other hand, India-Japan economic relations could not move faster as Japan was not in favour

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\*\* Choudhury, Srabani Roy. (2009). ‘Japan’s Foreign Direct Investment in India: Lesson learnt from Firm Level Survey’. Working Paper No. 243. New Delhi: Indian Council for Research on Economic Relations

†† The complete text of the speech is available via the Press Information Bureau Website. <http://www.pib.nic.in/newsite/erecontent.aspx?reid=24032>

‡‡ The Diplomat. ‘India Must Look Beyond ASEAN in Regional Security’. Accessed on 23 May 2020

§§ Funabashi, Yoichi. ‘India and Japan: A new Strategic Affinity’. Journal of the United Service Institute of India. Vol CXXXIV, No 556. April-June 2004 Accessed on 12 May, 2020

of India's controlled economy and this was a questionable practice which has been troubling the relations. By the late 90's, India had strengthened its trade flow with the ASEAN countries through its 'Look East Policy' and had sharpened its position in the Asian affairs. As the Indo-ASEAN economic relation has forged towards a deeper phase through its import and export items reaching 8.3 billion total trades in 2000. Japan was one of the most responsive countries in India's open market. J.N. Dixit observed that

*Japan's interest in India is primarily economic. In other spheres, India does not form a primary focus of attention yet. This is the backdrop against Indo-Japanese relations will evolve in the foreseeable future*<sup>\*\*\*</sup>

India under the Prime Ministership of Dr Manmohan Singh has taken steps for better economic relation with Japan by signing CEPA (Comprehensive Economic Partnership Agreement) which covers trade in goods, services and investment flows and aims to further lift global strategic partnership and technological flows. CEPA was formally signed in 2011 covers not only trade in goods and services but also in important areas of trade in services, movement of natural persons, investment, intellectual property rights, custom procedure and other trade related issues.<sup>†††</sup> Through CEPA Indo-Japan trade increased up to 18.3 billion in the 2011-12 fiscal, subsequently enhancing the economic line along with other countries under its LEP.

The economic relation between India and Japan has substantial growth in recent years given the complementarities that exist between the two Asian economies. India's human resources and its growing market in the ASEAN countries were seen as a huge attraction by Japan. The signing of the historic India-Japan Comprehensive Economic Partnership (CEPA) and its implementation from August 2011 has accelerated economic and commercial relations between the two countries.

Table 1: (in Dollar Billion)

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
India's export to Japan	6.10	6.81	5.38	4.66	3.85	4.73	4.86
India's import from Japan	12.41	9.48	10.13	9.85	9.75	10.97	12.77
India-Japan Bilateral Trade	18.51	16.29	15.51	14.51	13.60	15.71	17.63

(Source: Ministry of Commerce and Industry)

<sup>\*\*\*</sup> Yamanouchi, Toshio. (2000). 'India through Japanese Eyes'. New Delhi: Sterling Publishers.

<sup>†††</sup> Goyal, Arun. Minister (Economic and Commercial). 'CEPA a way forward'. Embassy of India, Tokyo. Interview with Economic Times. Accessed on 7 June, 2020

Indian exports to Japan are as deep-rooted as the post world war II era. The trade relations between India and Japan prospered after the establishment of diplomatic ties, especially after World War II. Japan resurrected from the devastation of the war loss with the help of India's iron ore export. Japan shared by providing yen loans to India in 1958 for the first time from the Japanese government. Since then, Japan is India's largest aid donor.<sup>†††</sup>

As of 2018, India had a 1.1% share of Japan's total trade and Japan's share of India's trade was 2.1% despite the fact that the Japan-India Economic Partnership Agreement bilateral trade has not increased by any boundless degree. However, Japan-India trade totalled about \$17.63 billion in 2018 (as shown in Table 1). Contrary to the trade relation, its direct investment is experiencing a more active trend. Japan's FDI in India grew sharply since 2007. And the number of companies entering the Indian market has grown steadily from 550 in 2008 to 1441 in 2018. Japan has a recurring trade surplus with India. Thus, parallel trade has not developed between Japan and India.<sup>§§§</sup>

India's exports to Japan has reached 13.4 INR Billion in April 2020 while its imports from Japan reached 39.17 INR Billion in April 2020. According to the United Nations COMTRADE database on international trade, Indian imports from Japan were US\$ 12.74 Billion during 2019. India's main exports to Japan have been petroleum products, chemicals, elements, compounds, fruit juice, pulses, spices, tobacco, non-metallic mineral ware, fish and fish preparations, metalliferous ores and fabrics and machinery while India's primary imports from Japan are machinery, electrical machinery, iron and steel products, plastic minerals, non-ferrous metals, parts of motor vehicles, organic chemicals, manufactures of metals etc.<sup>\*\*\*\*</sup>

India's engagement with Japan in foreign direct investment is important and Japan is India's fourth largest investor. Similarly, India is looking towards Japan through its 'Act East Policy'. Japan is one of the most important investors in India and Japan's FDI in India rose vigorously since 2007 though it experiences a wavy pattern. Therefore, the procurement of Ranbaxy Laboratories, India's key drug maker by Daiichi Sankyo and NTT Docomo's equity contribution in Tata Teleservices caused Japan's FDI in India to flow to \$5,551 million in 2008 on a net flow basis followed by FDI of \$3,664 million in 2009. Then, with the Daiichi Sankyo companies withdrawing from the Indian market, Japan's FDI in India has slowed down but the number of companies entering the Indian market has grown steadily from 550 in 2008 to 1,441 in 2018. Japan investments in India include the service sector, telecommunications and the automobile industry, drugs and pharmaceuticals and metallurgical industries. Maruti

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††† The Financial Express. 'How to Improve agricultural dates between India and Japan'. Accessed on 20 July, 2020

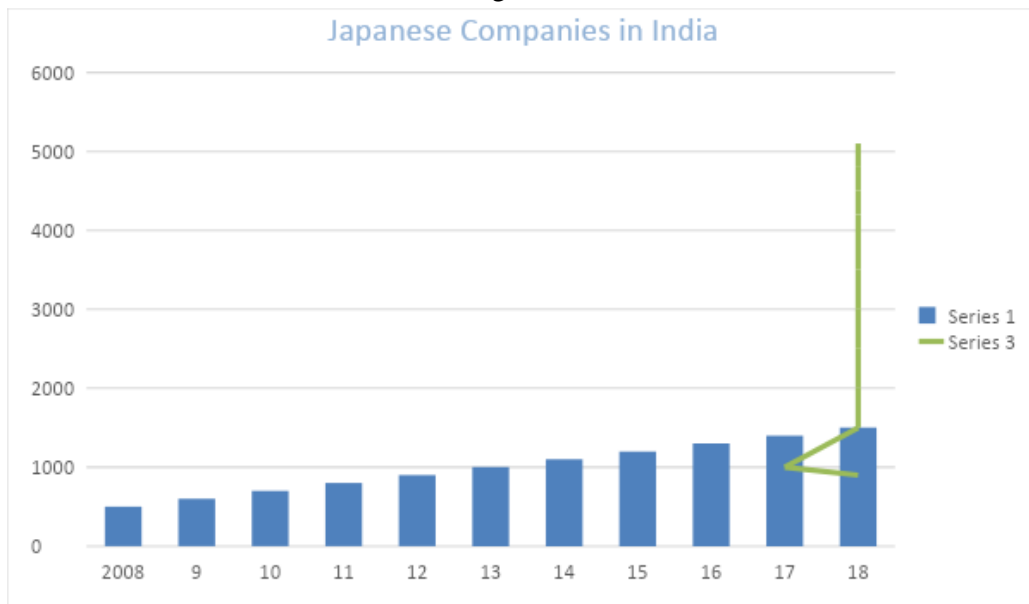
§§§ Sustainable Development Goals. 'India-Japan Commercial Ties'. Accessed on 28 August, 2020

\*\*\*\* Trading Economics. 'India-Economic Indicators'. Accessed on 1 August, 2020

Suzuki is Japan's forefront automobile maker in India and it had the largest share in India's passenger car segment with 49.98% in the financial year 2017-18.<sup>††††</sup>

Japanese rising centre in the Indian service sector has led to an increase in FDI inflows. The sub sectors include finance, banking insurance, non-financial/business, outsourcing, courier, Some Japanese groups entering India are Kobe Steel, Nippon Steel & Sumitomo metals and JFE steel. Japanese biggest investment in India's telecommunication industry happened through Tata and NTT Docomo's joint venture.<sup>‡‡‡‡</sup>

Figure 1:



(Source: Embassy of Japan in India)

The rise of Suzuki's in India and its success in the Indian manufacturing industry has increased the number of Indian workers associated with the Japanese companies. Japanese advancement in the field of company has laid foundation into India in the areas of steel, machinery, power generation equipment and logistics. The advance of Japanese companies into India is increasing in a wide range of areas such as foods, stationery, cosmetics, pharmaceuticals, sanitary goods and toilet facilities.<sup>§§§§</sup> In the initial years it has been observed that the low presence of Japanese companies in India has been the poor infrastructure and the extremely large number of Indian bureaucrats.

According to the Embassy of Japan in India and JETRO there were 1,369 Japanese companies in India and 4,383 business establishments in 2017. This shows that the number of

<sup>††††</sup> Makoto. Kojima. 'Japan- India Economic Ties; Current Trends and Future Prospects'. Economy. Accessed on 1 July, 2020

<sup>‡‡‡‡</sup> Roy, Mridula Manjari Moitra and Dr. Rupa Chandra. 'The Trends in FDI inflows from Japan to India'. Working Paper. Indian Institute of Management Bangalore. Accessed on 1 July 2020

<sup>§§§§</sup> Makoto, Kojima. Ibid.,

Japanese associated companies has grown-up in recent years. Thus, Japanese companies listed in India increased 5.2 per cent in 2018 from the previous year and 72 more companies than a year earlier with manufacturing firms. These 1441 companies are in all 5120 corporate institutions in India. These include liaison and branch offices in India as well as local subsidiaries. In the same way, the number of Indian businesses functioning in Japan is also increasing with quantity and it overpasses more than 100 Indian Investment in Japan in the first quarter of 2018 is US\$ 384.8 million with total investment crossing US\$ 1 billion.\*\*\*\*\*

Japan has profound interest in the 'Make in India' innovation and this paved way for the rise of Japanese companies in India. Toyota and Honda are the key players and their shares consist of 5.27% and 5.17%. On the other hand, Nissan fills in to boost its development in India by pacing up its reserves in the industry. Likewise, the pharmaceuticals and service sector has also filled up its venture. Japanese businesses in India are playing an extensive part in Indian business arena. The overall setting of Japanese business presence in India is very encouraging. Under the aegis of 'Act East Policy', the Japanese establishment in India has become 3961 numbers reached to 4590 numbers in the year 2016. This showed that the arrival of AEP has flourished business in India.

## **Conclusion**

India and Japan have an evolving partnership and both are looking forward to a new goal by improving their bilateral relations and improvised its cooperation in terms of export and import items. Thus, foreign direct investment remains one of the key emerging players between Indo-Japan partnerships. Many Indian companies have opened their doors for Japanese company's invest in India. India as an emerging giant in Asia could have an insightful influence in shaping regional order. India's growing relations with the Southeast Asian countries has built progressive path for jobs among the Indian professionals. As noted, Japanese business has flourished and India witnesses increasing demand of Japanese products and materials. There is an increase in Japanese corporations and branches in several states of India. The significance of CEPA is seen in terms of its export and import items as through this India has strengthened its partnership with Japan. India has successfully launched its 'AEP' and this helped reinvigorate its economic relation in the Asian region although there are many challenges faced by India in developing closer cooperation in the region. On the other hand, the success of AEP lies under India's growing relations with ASEAN. ASEAN one of the most successful organizations in Asia, plays a significant role in the evolving partnership of India and Japan.

On the other hand, Beijing's dominant power in the Indo-Pacific and its attempt to clear the United States has strengthened India and Japan in stabilising its cooperation in an uncertain and dynamic environment. However, there is a tendency to improve its growing imbalance in terms of its export and import item. The rise of Japanese companies in India has given new opportunities in increasing its cooperation between India and Japan. The service sector has also strengthened its place. Thus, the complementary role is hard to find as India

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\*\*\*\*\* Embassy of India. Tokyo (Japan). Accessed on 5 July, 2020



largely depends on the consumer base while Japan relies on old society. It is a challenge for both to intensify its cooperation so as to have a balanced trade. India-Japan bilateral cooperation which consists of peace, prosperity and stability emphasized the significance of 'Act East Policy' as the cornerstone of cooperation.

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