



## **“INDO-JAPAN ECONOMIC ENGAGEMENT: MOVING FROM ‘ODA’ TO ‘FDI’ ”**

*Rapporteur Report for CAPS Fellow Seminar;  
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**Chair: Col. GS Puyam , Senior Fellow, CAPS**

**Speaker: Ms. Prerna Gandhi, Research Associate, CAPS**

On 24<sup>th</sup> October 2014, Ms. Prerna Gandhi presented a paper in CAPS weekly Fellow Seminar. Her paper titled, “*Indo-Japan Economic Engagement: Moving From ‘ODA’ to ‘FDI’*” forms a part of her broad research project themed “*Indo-Japan Economic and Defense Cooperation*” at CAPS. The seminar was chaired by Col. GS Puyam, Senior Fellow, CAPS.

The presentation was at a timely juncture when India-Japan relations are on an upward trend with the successful visit of PM Modi to Japan. The aim of her paper was to comprehend the changing connotation of India-Japan relations in the backdrop of the power stalemate in the Asian Pacific region and the evolving geopolitics. Her presentation was divided into four parts, i) Background on India-Japan Economic Engagement ii) The China Factor influencing the India-Japan Economic Relations iii) Role of Japan in Infrastructure Development in India iv) Conclusions comprising her recommendation on areas of improvement.

The speaker viewed the current power trend in the Asian Pacific region as providing space for India to play a constructive role. She highlighted that through its diplomatic position, hard military power and untapped market, India can play a game changing role in the Asian Pacific region. As it is, the region can be viewed as undergoing a transition characterized by various developments such as the rise of China, and the changing contours of US-Japan alliance. She emphasized that given the current trend of flux in relations between the regional powers, Japan is trying to robustly engage India in an economic partnership. It is Japan’s strategic behavior to pursue strategic goals through its economic relations.

Hence in the context of growth of complex strategic variables, Japan's economic behavior towards India has moved from 'Official Development Assistance' (ODA) to 'Foreign Direct Investment' (FDI).

**W**hile this is an indicator of an upward trend in the bilateral relationship between the two countries, it must be reckoned that the long standing rift between the two countries over nuclear issues still persists due to each country's contrasting stand on nuclear non-proliferation regime. Nonetheless, today Japan views India as crucial to its national interest. This fits in well with Japan's character of it being an economic powerhouse and absence of military –offensive arm. Hence, to sustain the strategic goals, Japan seeks to strengthen its economic bilateral relations with India. In fact studies have proved that concentration of Japanese ODA and FDI have resulted in a positive Japanese investor's location.

**F**urther the speaker commented upon the future of India-Japan relations. She viewed it as likely to be dictated by Japan's relations with China and to some extent India's relations with the US. Additionally, she also highlighted possible new areas that can be utilized to expand the scope of India-Japan economic engagement. The infrastructure in India is ranked at 71st place in the 2013-2014 Global Competitiveness Index of the WEF; this was viewed by the speaker as a key constraint for doing business with India. In this context the speaker viewed the India-Japan economic cooperation in the infrastructure sector as an important contribution.

**S**he further suggested pharmaceuticals and rare earth minerals industry cooperation between the two countries as relatively unexplored areas worthy of consideration for strategic collaboration. To further bolster this partnership, the speaker also suggested India to overcome certain issues such as administrative delays, lack of transparency, accountability and prevalence of corruption. The difficulty of human resource management and harsh living conditions in India and language barrier are some of the reasons viewed as preventing Japanese investment in India, as highlighted by the speaker. The session focused more on linkages of economic goals with strategy. The concluding observations were summed up by the speaker with a quote by an American Businessman, Roger McNamee that lays emphasis on changing the approach towards infrastructure as a component of strategy and not as an economic stimulant.

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