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About the Author

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India and Japan

Changing Dimensions of Partnership in the post-Cold War Period

After World War II, India and Japan established diplomatic relations in April 1952 and, over the next about six decades, developed a strong and stable partnership based on mutual respect and understanding. To be sure, during the Cold War period, ideological differences between the two countries created many serious obstacles to the nurturing of warm relations, but since 2000 the interactions have entered a new phase with the two countries coming together to build a global partnership. Until recently, their interests were primarily limited to economic matters like development assistance and trade, but today they are more diversified and cover a wide range of subjects, the salient ones being nuclear disarmament, maritime security, energy cooperation, climate change, counter terrorism, UN reforms and regional community building. The signing of the Declaration on Security Cooperation by India and Japan in October 2008 was a high watermark in the process initiated in 2000. Very few in either of the countries would have expected such a significant development to materialize so rapidly because, until just ten years ago, India hardly ever figured in any Japanese discourse on the emerging Asian security landscape. But today, it is difficult to think of such security discussions in Japan without reference to India. There is a fundamental shift in the Japanese assessment of India's role in the shaping of a new Asian security architecture. New security and economic convergences have created unprecedented opportunities for further strengthening of ties.

Background: The evolution of Japan's post-war relations with most Asian countries was largely governed by two factors—the legacies of the Second World War and the compulsions of the Cold War. The impact of

these factors was particularly severe in its dealings with Southeast Asian countries and the prolonged negotiations for just and adequate reparations during the 1950s and 1960s reflected the intensity of their antipathy towards Japan. Cold War considerations further complicated the normalization of their relations. While the Southeast Asian region posed formidable diplomatic challenges to Japan, South Asia provided a soothing contrast. South Asian countries could view the entry of Japan to the comity of nations with considerable sympathy, since they had not experienced the severity of Japan's military rule during the Second World War. Even during the Allied Occupation of Japan (1945-52), when India was very much involved in the formulation of policies for Japan as a member of the Far Eastern Commission (FEC), New Delhi argued that an unduly long military occupation would defeat the Allied goals of promoting democratic and liberal elements in Japan. During 1950-51, when the US, compelled by the considerations of the Cold War, decided to draw up a speedy peace settlement with Japan, India expressed its views very cogently. While India was in favour of an early restoration of sovereignty to Japan, it did not want the issue to be clouded by the exigencies of the Cold War. The re-emergence of Japan as a free country, according to India, was an event of great significance for the whole of Asia and it should not be dictated by any extraneous factors. India declined to participate in the San Francisco Peace Conference held in September 1951 on the ground that the US-drafted peace treaty failed to take due recognition of the wishes of the Japanese people. Instead, India chose to enter into a bilateral peace treaty with Japan in 1952 and it was one of the first countries in Asia to open diplomatic ties with Tokyo.¹

The Cold War rivalry continued to exert a great influence on Japan's ties with India in the following decades and the security alliance with the US proved to be a barrier, particularly for the non-aligned countries. India, which took a high profile in various international fora as the spokesperson of the newly emerging Afro-Asian countries, considered

Japan only as a 'client state' aligned to the US. This ideological divide continued to create a psychological barrier between the two countries that saw them taking diametrically opposite positions on a range of regional and global issues. Nevertheless, it needs to be pointed out that the leaders of both India and Japan found a number of spheres where they could lay the ground for future cooperation and partnership. Trade and development assistance became major tools for promoting bilateral understanding and this explains the salient economic orientation of the partnership.

Post-Cold War Period: The end of the Cold War brought about a major transformation in the economic and security policies of most Asian countries. Many of them, which had been constrained by Cold War pressures for decades started making appropriate policy changes in order to catch up with the rapidly changing economic and strategic situation of the region. Ideology, which had been a major determinant in the Cold War years has now become irrelevant and in its place a variety of new elements have come to influence relations among countries. The importance of military power notwithstanding, the concept of security itself has come to be increasingly seen in non-military terms and issues like trade, resources, technology transfer, investment, energy and environment have assumed new importance.

Any study of India-Japan interaction in the post-Cold War period should take note of the critical changes that have occurred since the turn of the 1990s. Despite the prolonged period of recession during the 1990s, Japan's share in the global GNP and global trade has been considerable. It has also been a major provider of economic aid to most developing countries of Asia. Even today Japan enjoys a strong clout in many of the international financial bodies like the World Bank, the International Monetary Fund, and the Asian Development Bank (ADB). It has used these institutions to give resonance to its voice in international relations.

Japan's role in the activities of the UN has expanded markedly and its financial contributions to the world body are second only to those of the US. After taking appropriate domestic legislative measures, Japan has increased its participation in UN peace-keeping operations. This expanded role in the UN activities, Japan has always believed, will strengthen its position to become a permanent member of the UN Security Council.

The end of the Cold War did not mean any loosening of its security alliance with the US. On the contrary, national consensus on the alliance has continued to remain strong and both countries have taken several steps to redefine the alliance in the changed context. Both have underscored the need for maintaining the alliance in order to combat regional conflicts, terrorism, the arms race, nuclear proliferation and ethnic and religious fundamentalism. The Tokyo Declaration, signed by President George Bush and Prime Minister Kiichi Miyazawa in January 1992, talked eloquently about their shared security concerns in a rapidly changing geo-strategic situation in Asia.² Successive Japanese Governments, irrespective of who headed them, have given their full commitment to the alliance which continues to be the key element of Japan's foreign policy. Similarly, in the US too, there has been strong bipartisan support to the continuance of the security alliance. In April 1996, Japanese Prime Minister Ryutaro Hashimoto and US President Bill Clinton clarified in a joint statement that the security alliance would “continue to play an important role in preserving security, peace and stability in the Asia-Pacific.”³ Both agreed to enlarge their defence cooperation and expand the scope of the treaty to areas beyond “Far East.” This was very soon reflected in several steps they took to expand their security cooperation. The revision of the 1978 Defence Guidelines was one such step that talked about “security cooperation in situations in areas surrounding Japan that would have an important influence on Japan's peace and security”⁴ Their security relations since then have been

buttressed by their common concerns on a range of issues such as the rise of China, North Korea's nuclear ambitions, counter terrorism, non-proliferation, maritime security and energy cooperation.

The end of the Cold War proved to be propitious for India-Japan relations since many common factors and concerns which had remained dormant for years began to manifest themselves sharply in the evolving new regional environment and the relations entered a new and positive phase after 2000. India's impressive economic growth following the adoption of economic reforms and liberalization was one critical reason for Japan to think what an economically strong India would mean to the peace and security of Asia. The wide support that the liberalization programme enjoyed at home and the accompanying high rate of annual growth of the economy convinced most Japanese leaders that India was firmly committed to an outward-looking market economy. The new economic orientation, they believed, would open numerous opportunities for foreign investment that could bring the two countries closer economically.

The collapse of the Cold War structure released India from its earlier ideological inhibitions and impelled it to broaden the base of its foreign policy. As a result, India warmed up to the US and sought to build bridges of understanding with it. Prime Minister Narasimha Rao's visit to the US in 1994 was an important event in promoting that goal. Though there were serious differences between the two countries on nuclear issues and American military assistance to Pakistan, India underplayed the contentious political and security issues and showed a keenness to promote relations in the areas of trade, investment and scientific and technological exchanges. Soon the US emerged as India's biggest trade and investment partner. With the result, India has the largest number of technological and business collaborations with the US. The signing of the Defence Framework Agreement in June 2005 between India and the US

strengthened their relations by establishing a new vision for security cooperation between the two countries for the next ten years. It showed the convergence of their common security concerns in many areas, including counter terrorism, prevention of the spread of weapons of mass destruction (WMD), and safety of SLOCs.⁵ A succession of events, including Prime Minister Manmohan Singh's visit to the US in July 2005 and President George Bush's visit to India in March 2006, culminated in the signing of a civilian nuclear agreement between the two countries. It was a landmark development in the bilateral interactions which also stimulated Japan's interest in India.⁶

The 'Look East' policy initiated by Prime Minister Narasimha Rao became a driving force for India to forge closer links with Japan, China, Korea and the ASEAN countries. Though India's relations with these countries are centuries old, this historical advantage was not fully factored into their interactions. Until the Bandung Conference in 1955, India maintained high profile diplomacy in the region. However, the momentum in its relations with countries in the region tended to slow down soon after that. India's commitment to non-alignment did not always resonate favourably with many countries in East and Southeast Asia. The Gulf War of 1990-91 and the fall of the Soviet Union hit the Indian economy so badly that New Delhi had to look for alternative regions with potential for trade and investment. Unfortunately, its own immediate neighbourhood—South Asia—had little to offer by way of investment and trade. On the other hand, the focus of global attention was shifting to East Asia as a major growth centre. During the initial phase of the 'Look East' policy, India's focus was on ASEAN countries, but soon it realized that the long term goal of the policy would be best served by fostering close economic ties with Japan, Korea and China as well. In June 1992, Narasimha Rao visited Japan in pursuance of his 'eastern drive.' He and his Japanese counterpart, Kiichi Miyazawa, recognized that the new emerging world order provided them with a

unique opportunity to deepen their bilateral relations and that they “must cooperate in restructuring international relations in a manner that permits global and regional issues to be tackled both effectively and in a more democratic international environment.”⁷

The 'Look East' policy bore fruit in 1994 when India became a full-fledged dialogue partner of ASEAN. Having joined the ASEAN Regional Forum (ARF) in 1996, India takes a keen interest in its deliberations. India also participates in the ASEAN + 1 annual meeting. In 2005, India became a member of the East Asian Summit (EAS) mainly due to the initiative taken by Japan. Prior to the formation of the EAS, China had made it clear that it would like to limit the summit membership only to ASEAN+3 countries. The absence of the US from the EAS impelled Japan to desperately look for other options to balance China and, despite Beijing's stiff resistance, it succeeded in broadening the forum's membership by including India, Australia and New Zealand, provided they fulfilled the criteria earlier laid down by ASEAN itself. India has participated in all the four EAS meetings since then.

Nuclear Tests 1998: Indo-Japanese relations took off smoothly during the early post-Cold War years but ran into serious difficulties following India's nuclear tests in May 1998. Tokyo's decision to suspend its ODA and the accompanying reluctance of the Japanese business houses to invest in India led to a state of near stagnation in the bilateral ties that had lasted for about three years. This was an unfortunate phase in the post-Cold War bilateral partnership. Many in India and Japan felt at that time that the measures taken by the Japanese Government under Ryutaro Hashimoto were too harsh. Japan was not content with just suspending economic aid; it almost spearheaded a campaign against India at several international fora, including the G-8 Summit held in Birmingham in May 1998, the Conference on Disarmament, Geneva (June 1998), the UN Security Council (June 1998) and the ASEAN Regional Forum (July

1998). Tokyo co-sponsored a resolution in the UN Security Council that exhorted both India and Pakistan to stop their nuclear race and join the international regime for non-proliferation. The resolution made a specific reference to the strained relations between India and Pakistan and called upon them to find mutually acceptable solutions to bilateral issues, including Kashmir. From then on, Japan insisted on India's commitment to the NPT and CTBT as a condition for resuming ODA loans.

While India understood Japan's sensitivities on the nuclear issue, because of its tragic Hiroshima and Nagasaki experiences, it was nevertheless disappointed by Tokyo's failure to appreciate India's serious security dilemma. Unlike Japan, India did not enjoy the benefits of a nuclear umbrella provided by an outside power. But what were the reasons for Prime Minister Hashimoto to adopt such a 'harsh posture' against India? A close examination of Japan's overreaction would reveal certain domestic compulsions that the Hashimoto Government encountered at that time. First and foremost, the Government was very much down on the popularity chart because of its ineffective handling of the economy in the wake of one of the longest recessions in post-war history. The banking system witnessed serious crises with several financial scandals being exposed. Further, Hashimoto had to face a crucial Upper House election in July 1998 and his continuance in office was linked to the outcome of the polls. He had to use all the tools available to him to strengthen his image before the eyes of the electorate. At a time when public criticism of Japan's ODA policy was mounting, he had to demonstrate his concern that the official loans were extended strictly in accordance with the 'conditionalities' mentioned in the 1992 ODA Charter. He also wanted to project himself as an exponent of nuclear non-proliferation by seeking to play a larger than life role in some global fora. Above all, Japan was keen to preserve the prevailing global nuclear order and it considered India's action as a threat to the stability of that order, as it could encourage more countries to develop nuclear weapon programmes.

Nuclear tests and their lessons: Following the 1998 tests, bilateral relations were held hostage to the nuclear issue for about three years. But this unfortunate period carried some lessons for both the countries, who now understood the need to diversify their interactions beyond trade and development assistance. During 1998-2000 when ODA, the core element of the partnership, remained suspended, it virtually affected the whole gamut of bilateral ties. Both countries understood that in order to make the partnership vibrant and strong, it should rest on a more solid foundation that would include issues like security, political and cultural relations. Japan understood that there was a limit to the use of ODA as an instrument of exerting pressure for obtaining certain political ends. As India's economy was making impressive strides, the suspension of Japan's annual ODA did not have much impact. In fact, Tokyo's action did not translate into any tangible political results even in the case of Pakistan. Lastly, a new thinking was slowly gaining ground in India that the time had come for India to graduate to the next stage, that is, to build a bilateral partnership based more on private investment than on ODA.⁸

Prime Minister Yoshiro Mori's vision: It was under these circumstances of unease that Prime Minister Yoshiro Mori undertook an official visit to India in August 2000. Showing a great vision for the future, he took the initiative to redefine the contours of the bilateral partnership. He cautioned that both India and Japan, despite their high profile roles in global politics, were inescapably embroiled in their narrow bilateral problems and called upon both countries to build a global partnership that would address a wide spectrum of issues such as nuclear disarmament, structural reform of the UN, counter terrorism, maritime security and energy cooperation. Under the rubric of global partnership, he believed, both India and Japan could contribute substantially towards the resolution of several global and regional issues. When Mori mooted the idea of global partnership, what he really wanted was to redefine the bilateral relations in the light of the rapidly shifting

geo-political landscape of Asia as well as the world. Their relations, he stressed, should rest on a broad and solid foundation manifesting their economic and security commonalities and the high stakes that they together have in the shaping of a new regional and global order.

It is necessary to further probe the circumstances that compelled Mori to make his proposal for a global partnership with India. After the end of the Cold War, Japan, a diplomatic beneficiary of the Cold War, took a fairly long time to adjust itself to the unfolding new geo-strategic realities. During the 1990s, there was considerable misunderstanding in Japan on President Bill Clinton's overtures to China and many Japanese leaders wondered whether it would be wise for Japan to continue to depend solely on its alliance with the US. This skepticism was further deepened at the time of the currency crisis in 1997-98 in Southeast Asia. During the crisis, Japan's proposal to create an Asian Monetary Fund (AMF) with a capital of US \$10 billion for assisting the countries affected by the crisis was turned down by the US, as it did not entertain a prominent role for Japan in the region. It is relevant in this context to note that Japan at the same time was promoting ASEAN+3, a new institutional mechanism that would bring greater coordination with China and South Korea and link it up with ASEAN countries. All these developments indicated Japan's anxiety to increase its diplomatic options outside the ambit of US-Japan alliance.

It is in this backdrop of Japan's quest for seeking a broader Asian arena to safeguard its own interests that Mori's call for a global partnership between India and Japan was made. To be sure, the beginning of this trend goes back to January 2000, when India's Defence Minister George Fernandes visited Tokyo to initiate a new defence dialogue. Following a series of meetings with Japanese leaders, he observed that "after fifty years of aloofness, India and Japan have decided on a security and defence related dialogue on a regular basis."⁹

Following Mori's enunciation of the concept of global partnership in August 2000, the strategic factor in the bilateral relations came to be strongly stressed. In July 2001, the first comprehensive bilateral security dialogue was held in Tokyo to discuss security and defence policies, the Asian security environment and nuclear non-proliferation. The dialogue was institutionalized as an annual event. This was followed by greater military-to-military cooperation between the two countries. Japan's participation in the International Fleet Review held in Mumbai in February 2001 was an important event followed by the visit of a Maritime Self-defence Force (MSDF) squadron to Chennai in May 2001. Such mutual visits have been taking place regularly since then, in addition to exchange of visits by service chiefs.

This new emphasis on security was welcomed by India's Prime Minister Atal Behari Vajpayee and his Japanese counterpart Junichiro Koizumi, who in their joint communiqué on December 10 2001 expressed their satisfaction at the outcomes of the bilateral Comprehensive Security Dialogue and military-to-military consultations, which were both held in July. Emphasizing the importance of holding such dialogues, they also set up another mechanism on counter-terrorism within the bilateral security framework.¹⁰ That the security factor was assuming greater salience within the official circles in Japan became clear when Japanese Foreign Minister Yoriko Kawaguchi stated in January 2003 that "achieving ever-closer cooperation on the security and defence front is crucial for Japan and India." The momentum for an intensified dialogue on security was kept up at the talks between Shigeru Ishiba, Japan's Director General of the Defence Agency and George Fernandes in New Delhi in May 2003. This was the first visit by the high-ranking defence minister which reflected Japan's increasing interest in forging a new strategic partnership with India.¹¹

Manmohan Singh-Koizumi Joint Statement: The idea of global partnership received a fresh impetus from the top leaders of the two countries. The visit made by Prime Minister Junichiro Koizumi was a landmark that set in motion a process by which the Prime Ministers of the two countries would meet annually in either of the countries. Since then five annual summit meetings have been held. The joint statement contained an eight-point agenda which provided a new direction to the bilateral relations. One of its objectives was to develop a well-structured framework for security dialogue and cooperation between the two countries. It was agreed that both countries would pursue their partnership at three levels. Bilaterally, they would strive to strengthen the prevailing political and economic links. At the regional level, they would promote peace and security in Asia by contributing to regional cooperation in such areas as maritime security and energy self-sufficiency. At the global level, both would cooperate in areas such as UN reforms, nuclear disarmament, counter terrorism and environment.¹²

The second summit was held in Tokyo in December 2006 when Prime Minister Manmohan Singh met his new Japanese counterpart Shinzo Abe. He was keen to establish a close rapport with Abe who, on his side, was strongly desirous of cultivating closer relations with India. Their joint statement entitled 'Towards India-Japan Strategic and Global Partnership' constitutes a long and detailed roadmap for building a multi-layered network of bilateral relations. Broadly, it proposed that following actions be taken: a) holding annual summit meetings between the top leaders of the two countries; b) institutionalizing strategic dialogue at the level of foreign ministers; c) pursuing negotiations for the conclusion of a bilateral economic partnership agreement/comprehensive economic cooperation agreement; d) establishing of a business leaders forum; e) cooperating in the field of science and technology; f) encouraging of people-to-people exchanges; g) cooperating in multilateral fora like the UN, SAARC, EAS and ARF and; h) cooperating in areas like energy, environment and global trade.¹³

Abe's initiative for quadrilateral cooperation: The third summit was held in New Delhi in August 2007 when Prime Minister Abe, in an effort to accelerate the pace of the partnership, articulated a broader vision of Asia, outlining the roles of the two countries to ensure peace and security in Asia. Abe broached his proposal for working out a value-based quadrilateral (Quad) understanding between Japan, the US, India and Australia for consolidating peace in Asia. Though, subsequently, his idea generated a great deal of debate, it failed to take off because of the deep suspicion expressed by Beijing to the effect that the proposal was hostile to China. In fact, even in May 2007, when the officials of the four countries met on the sidelines of the ARF security policy meeting to conduct exploratory talks on the Quad, China registered its strong protest.¹⁴ The proposal finally failed because neither India nor the US, or for that matter Australia, under its new Prime Minister, Kevin Rudd, showed any interest in the proposal. In Japan itself, Abe had to resign rather abruptly due to a combination of political and health reasons and the new Prime Minister, Yasuo Fukuda, showed no inclination to pursue the subject. On the contrary, he went on to build new bridges of understanding with China.

American interest in trilateral understanding: The US has been evincing considerable interest in developing close security understanding with Japan and India because of their many common interests and concerns, including the security of the sea-lanes, counter terrorism and energy security. The first joint maritime exercise by the US, India and Japan was held in April 2007 in the Pacific Ocean off the Boso Peninsula, central Japan. This was followed by a five-power joint exercise, including Australia and Singapore in the Bay of Bengal in September 2007. Earlier, in 2004-05, the US, Australia, Japan and India coordinated their relief operations following the tsunami in December 2004. Many influential groups and individuals in the US have also shown interest in the development of a new and closer security understanding between the three countries. At an official level, the joint statement of the US-Japan

Security Consultative Committee (2+2) held in Washington on May 1 2007, expressed interest in continuing to build upon the partnership with India and recognised that India's "continued growth is inextricably tied to the prosperity, freedom and the security of the region"¹⁵ The need to draw India into a closer partnership was also supported by influential private sources. The summary report of a trilateral dialogue between the Centre for Strategic and International Studies, Washington, the Japan Institute of International Affairs, Tokyo, and the Confederation of Indian Industry, India, after holding in-depth discussions, recommended that close trilateral relationships would serve each nation's interests and the cause of peace and stability in Asia.¹⁶ Making almost a similar recommendation, the Second Richard Armitage Report stated in 2007 that the US and Japan should strengthen their respective strategic partnerships with India and seek trilateral cooperation.¹⁷ It is to be noted that Japan played a positive role in supporting the Indo-US civilian nuclear agreement at the IAEA and the Nuclear Suppliers' Group.

Joint Declaration on Security Cooperation: A truly epoch-making development took place on October 22 2008, when Prime Minister Manmohan Singh and his Japanese counterpart Taro Aso signed the Joint Declaration on Security Cooperation. This is a historic document in that Japan has such arrangements only with Australia and the US. Undoubtedly, it was an outcome of the continuous efforts made by the top leaders of both countries over a long period. A study of the document shows that it embodies almost all the pledges and assurances made by them in various joint statements and other official meetings since 2001. One significant aspect of the Declaration is the emphasis placed on the need for bilateral policy coordination in regional affairs, as well as bilateral cooperation within multilateral fora in Asia such as the EAS, ARF and RECAPP. The Declaration essentially seeks to build on the existing tempo in defence ties, while attempting to broaden the framework with a view to influencing the emerging security architecture.

In this context, it has also envisaged an action plan that would define specific measures to concretize security cooperation.¹⁸

Prime Minister Hatoyama and India—Signing of the Action Plan:

That the Indo-Japanese partnership transcends domestic party lines in Japan was amply proved by the successful visit made in the last week of December 2009 by the new Japanese Prime Minister, Yukio Hatoyama, who represents a new ruling coalition headed by the Democratic Party of Japan (DPJ). Despite several economic and diplomatic challenges he faced at home soon after assuming office, he showed a great keenness to visit India before the end of the year in order to maintain 'continuity' in bilateral relations. It was unusual for a newly elected prime minister to undertake an overseas trip at such a busy time. The Japanese media almost in one voice complimented Hatoyama for his decision to visit India.¹⁹ Acknowledging that the strategic and global partnership had reached "a new stage", he not only stuck to the summit meeting, but also had no hesitation in concretizing an action plan on security cooperation with India, which had been proposed by the previous government led by the Liberal Democratic Party (LDP).

Action Plan on Security Cooperation: In the realm of security, one major outcome of Hatoyama's visit was that both countries signed an action plan to strengthen bilateral security cooperation. The Singh-Hatoyama action plan lays out a comprehensive agenda that mentions specific measures to be taken by the two countries in nine areas, including strategic and defence cooperation mechanisms, maritime security, safety of transport, cooperation at the UN, disaster management, and cooperation on disarmament and non-proliferation. Of particular significance is the decision to annually hold a comprehensive 2+2 security dialogue at the cabinet/senior official level. It is useful to note that, in March 2007, Japan and Australia had also signed a Declaration on Security Cooperation, which was given a concrete shape by an action plan in December 2009. The present Indo-Japanese Declaration on

Security Cooperation is based on the Australian model with many similarities. For example, the 2+2 dialogue mechanism in the case of Australia is at the level of cabinet ministers. In addition, the India-Japan agreement is essentially bilateral in nature and does not have references to any other relationship. But, as Brahma Chellaney says, the three agreements—between Japan-Australia, India and Japan and India and Australia (2009)—are alike in the “structure and even large parts of the three security agreements.”²⁰ While it is wrong to assume that these agreements in a way bring the earlier quadrilateral security proposal closer to realisation, there is no doubt that the flow of communication among these countries on strategic matters could be easier now because of these accords.

Maritime Security: As noted earlier, the India-Japan Action Plan pays considerable attention to maritime security as a critical area in the bilateral relations. Both countries share identical interests and concerns on the need to ensure the safety of the sea-lanes of communication (SLOCs) in the Indian Ocean area. Maritime security in the Indian Ocean calls for systematic efforts at multilateral levels in view of the diverse and overlapping interests of numerous countries involved. Since it will take a long time before a regional ocean regime is created, it is essential for the countries concerned to undertake such measures as would contribute to the security of the SLOCs. In this context, it is imperative for both Japan and India to jointly address several issues such as ocean piracy, maritime environment, transport of weapons of mass destruction (WMD) and the safety of Malacca Strait. Indo-Japanese cooperation should become a key component in the whole Indian Ocean security mechanism. Japan is a maritime nation depending on the Ocean for its basic resources and external trade. More than seventy per cent of its energy resources are transported by sea from the Middle East and any disruption to its energy supplies could seriously affect its economy. Indian Ocean security is directly linked to the well-being of the Japanese economy.

With a coastline of 7,500 kilometers, India too has a vital stake in the security of the Indian Ocean. Since the end of the Cold War, India has pursued a comprehensive maritime strategy that emphasizes the development of modern ports and harbours, exploitation of marine resources, expansion of shipping, and modernization of fishing industry. Following the implementation of the UN Convention on Laws of the Sea (UNCLOS), it set up its Exclusive Economic Zone (EEZ) and went on to widen the framework of its maritime strategy. Equipped with warships, aircraft carriers, submarines and minesweepers, India has one of the strongest and most sophisticated navies in the Asia-Pacific region.

India also has a highly developed Coast Guard whose main function is to protect life and property at sea against piracy and terrorism. With India's commercial and trade relations growing with East and Southeast Asia, the need for ensuring the safety of the SLOCs has assumed much greater importance. More than 90 per cent of India's external trade is sea borne. India also depends on oil supplies from the Middle East to the extent of seventy five per cent. There is therefore a strong convergence of mutual interests between India and Japan. They share many common perceptions on the evolving security situation in the Indian Ocean. Since piracy is one of the most serious threats to the SLOCs, they have already started cooperating with ASEAN countries.²¹ The India-Japan Action Plan talks about strengthening cooperation between the navies and Coast Guards of the two countries. Both countries have held periodical anti-piracy joint exercises in the Bay of Bengal. As noted earlier, following the 2004 Tsunami, India, Japan, the US, and Australia cooperated closely in the relief operations that led later to their participation in a joint naval exercise.

The five- power Malabar Naval Exercise held in the Bay of Bengal in September 2007 provoked a strong protest from China. A major challenge from now on would be the question of how to address the

growing naval strength of China, and as members of the ARF, the only security forum in the region, both India and Japan should try to make it a focal point in the sphere of maritime security. Its Track II, the Council for Security Cooperation in the Asia Pacific (CSCAP) could play a useful role in allaying the anxieties of China. In promoting maritime cooperation, India and Japan should carefully avoid creating an impression that it is directed against Beijing.

The China Factor: While Indo-Japanese partnership has matured into an important factor in the fashioning of new security architecture for Asia, it is imperative for both countries to emphasize that it is not directed against any third country. At the time of signing the Declaration on Security Cooperation in October 2008, Manmohan Singh made it clear that it would not be “at the cost of any third country, least of all China.”

A similar assurance was also given by Aso, when he said “We regard security cooperation with India as very important.... There was a mention of China—and we do not have any assumption of a third country as a target such as China.”²² Despite these assurances, China views the evolving bilateral closeness with considerable suspicion and it has voiced its misgivings in no uncertain terms. Both India and Japan understand that in any configuration of a new regional order in Asia, China will play a key role and that a policy to encourage China to integrate within the region as a responsible stakeholder will be in the long term interests of peace and security in the continent. Despite their bilateral problems with China, they believe in engaging Beijing both economically and politically.²³ All three are deeply involved in many multilayered mechanisms intended for promoting economic and security cooperation in Asia. China is the biggest trading partner of both India and Japan. Cordial ties between India, Japan and China constitute a key determinant for regional and global peace and for the emergence of Asia as the political and economic centre of the new global order.

The Official Development Assistance (ODA): The ODA has been the core component of the bilateral partnership for decades now and India was the first country to receive Japan's assistance (1958), following Prime Minister Jawaharlal Nehru's historic visit to Tokyo in 1957. In fact, it marked the starting point of Japan's policy of extending aid to developing countries. In the fifty-odd years, since then to March 2008, India received a total of Rs 115,086 crore or \$28 billion as ODA loans from Japan.²⁴ Since 2003-04, India has been the recipient of the largest ODA. Though Japan enjoyed the status of the world's biggest donor during the 1990s, it could not retain that status after 2000 due to its declining economy. But even at a time when Japan's overall ODA volume was shrinking, its assistance to India markedly increased. This indicates the importance that Japan attaches to its partnership with India. This donor-recipient relationship is marked by a strong current of goodwill and understanding. Unlike in some other countries, ODA has never been involved in any domestic political or financial controversies, a fact appreciated by Japan. That the ODA has brought immense benefits to many sectors of the Indian economy has been acknowledged by the people of both countries.

Before a detailed study of ODA's contribution to the Indian economy is attempted, it would be necessary to understand the objectives that have driven Japan to extend its assistance to India. In general terms, the basic objective of Japan's ODA loans is to facilitate long-term, low interest funds for the self-help efforts of developing countries for their socio-economic infrastructure development. The Country Assistance Programme for India 2006 outlines rather elaborately the principles and objectives that guide Japan's ODA to India. Some of them are stated below:

- a. In the post-Cold War period, India has moved closer to western countries and it has enhanced its presence in the international community as a result of its political and economic stability in

recent years. Its influence in respect to global issues such as war on terror, nuclear disarmament, energy, maritime security and environment has greatly increased. It is therefore important to position Japan's economic assistance to India as one of the tools for contributing to peace, stability and prosperity in Asia.

- b. Since India has the “potential to become a strong diplomatic, political and economic superpower in Asia”, it is necessary for Japan, China and India to further strengthen their relations and build cooperative relations designed for the 'new Asian era'. It is essential for Japan to strengthen India's commitment to the international economy and to provide support to it to grow as a constructive partner of the Asian region where strong market economies and economic partnerships are promoted.
- c. Another characteristic of India's approach to external aid is that the idea of “self-help” efforts is well established. After the end of the Second World War, Japan itself had borrowed heavily from the World Bank and built the necessary infrastructure which contributed to its rapid economic growth. The success of Japan was essentially based on its own self-efforts. Similarly, Japan also attaches great importance to the self-efforts of India when ODA is extended to it.
- d. India's ultimate aim is to expand the volume of foreign direct investment, trade and technology transfers. Japan's ODA should be able to trigger trends in India that would promote the activities of the private sector. In fact, ODA has contributed to stimulate public-private sector cooperation in many Southeast Asian countries. The same pattern can also take place in India.

- e. Though India has made remarkable economic and technological progress in the last sixty years, about thirty per cent of its population is still living in poverty. Japan has already taken a pledge to undertake sincere efforts to attain the Millennium Development Goals and in accordance with that aim, it considers poverty reduction as one of the objectives of its assistance. The ODA could create what Japan calls a “virtuous cycle” of infrastructure development through ODA loans, capacity building of the people through technical cooperation and high economic growth through improved investment climate. Most of the joint statements issued by the top leaders of the two countries have repeatedly stressed the importance of infrastructure, reduction of poverty, and environment as the key sectors that need to be developed.²⁵

Japanese ODA has three categories--bilateral loans, grants and technical assistance. Loans are extended at the government to government level on the basis of extensive consultations and negotiations. These loans are repayable within a prescribed time and carry a fixed rate of interest. Over a period of time the quality and terms of the loans have markedly improved. A small proportion is given to India as outright grants. The Japan International Cooperation Agency (JICA) also extends technical assistance to India in a number of sectors. Today the ODA loans are totally untied and project related. A look at the distribution of overall bilateral aid to India (Table I) would show that Japan has the highest percentage of project loans amounting to more than 98%. But Japan's grant contribution has been too miniscule to merit any attention whereas the US, EU and UK have accounted for 100% contribution in that category.

TABLE I - Bilateral Aid from Major Countries.

Rupees in Crores

Donor	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Japan	2729.78 (99.4/0.6)	3728.95 (100/0)	3328.88 (99.7/0.3)	3277.64 (99.84/0.16)	2971.18 (98/2)	2710.36 (97.92/2.08)	2097.62 (98.28/1.72)
United Kingdom	307.30 (0/100)	808.37 (0/100)	778.73 (0/100)	1279.94 (0/100)	1506.93 (0/100)	1371.94 (0/100)	1310.32 (0/100)
Germany	386.69 (82.5/17.5)	444.66 (65.9/34.1)	381.16 (50.83/49.17)	333.41 (59.21/40.79)	121.18 (14.87/85.12)	188.24 (18.25/81.75)	278.32 (36.48/63.52)
EEC	36.28 (0/100)	181.89 (0/100)	326.03 (0/100)	147.54 (0/100)	426.31 (0/100)	820.51 (0/100)	397.88 (0/100)
USA	81.11 (0/100)	66.18 (0/100)	49.86 (0/100)	110.56 (0/100)	80.17 (0/100)	52.66 (0/100)	44.56 (0/100)
Russian Federation	130.09 (100/0)	23.03 (100/0)	316.06 (100/0)	771.71 (100/0)	1194.82 (100/0)	1106.83 (100/0)	1404.41 (100/0)
Total Bilateral Assistance	3866.18 (83.5/16.5)	5624.77 (72.4/27.6)	5399.46 (71.94/28.06)	6218.05 (68.97/31.03)	6446.38 (64.84/35.05)	6309.14 (60.52/39.48)	5531.26 (64.60/35.40)

Note: The loan/grant mix is given in brackets.

The above figures indicate donor-wise total disbursement in respect of govt. as well as non govt. projects.

Data Source : JBIC, New Delhi

The story of Japan's assistance to India is now more than fifty years old and has many interesting facets. One could study it in two broad phases with the year 2000 as the dividing line. During 1998-2000, the ODA was suspended following India's nuclear tests. Otherwise, the first phase saw a steady increase in the aid quantum, covering a wide range of sectors. Correspondingly, the terms governing the loans also improved and today Japan's loans are wholly project oriented. Following India's adoption of liberalisation measures in 1991, Japanese assistance to India increased and the sectors that benefitted most were electric power, gas, transportation, irrigation and environment. India's commitment to economic liberalization and reforms in 1991 acted as a stimulus for Japan to build closer ties with India. As Japan emerged as world's biggest donor country during 1991-2000, its contributions also rose correspondingly. Tokyo also saw this aid as an instrument to promote its diplomatic interests. In the 1980s, Japan very often allotted its ODA to countries like Egypt, Turkey and Pakistan on the ground that they were located very close to 'areas of strategic importance'. In 1992, Japan formulated the first ODA Charter, which outlined the objectives of Japan's assistance by stressing

the importance of contributing to the development of infrastructure facilities in the developing countries. But the Charter also laid down some criteria that guided its distribution, such as a recipient country's military expenditure, policies on non-proliferation and interests in free market and environmental issues.²⁶ The Charter was revised in 2003 mainly because of the changes that had taken place in domestic and global conditions. Apart from the end of the Cold War which had changed the complexion of global power structure, the progress of globalization had widened the disparities between the developed and developing countries. Further, the economy of Japan itself had weakened because of the prolonged period of recession during the 1990s and this was reflected in the decreasing size of its ODA. The budgetary allocation for the 2008 fiscal year came down to \$6.86 billion and this was the ninth successive annual decline in the overall ODA allocations. From 2001 onwards, Japan fast started losing its position as the biggest economic donor, first to the US and in 2006 to Britain and then in 2007 to France and Germany.²⁷ Compelled to make the ODA stable and sustainable, the revised Charter gave priority not only to infrastructure development, but also to human security that included health, education, water supply, afforestation and environment.

The severe public criticism at home of the Government's ODA expenditures made it think seriously in terms of decreasing the reach of its aid policy. Some of the opinion surveys conducted by the Cabinet Secretariat indicated that the number of people who supported the ODA had declined sharply. Domestic constituencies in favour of ODA were shrinking in the first decade of this century. Interestingly, many Western countries which were committed to the Millennium Development Goals (MDG), particularly in the aftermath of the 9/11 terror attacks, started showing a new interest in extending economic assistance to developing countries, especially in Africa, in the belief that terrorism could be countered only by eliminating the root causes such as poverty, lack of

education, unemployment and poor health conditions. From 2003, as Japan's ODA budget started decreasing, it evolved a new strategy to make ODA efficient, effective and transparent. It became essential for the government to explain to the Japanese public that the ODA was not only working effectively for the development and welfare of the recipient countries, but it was also beneficial for Japan. With a smaller ODA budget, the Japanese Government began concentrating on giving aid in sectors like infrastructure, health, supply of water, and environment.

Table II: Japan's ODA Loans to India from 1997 onwards: (100 million yen)

Fiscal year	ODA Loan	Grant Aid	Technical Cooperation
1997	1,327.25	41.94	13.35
1998	115.37	3.98	10.19
1999	0	12.92	9.83
2000	189.26	18.29	9.03
2001	656.59	14.34	10.15
2002	1,112.39	9.10	9.60
2003	1,250.04	17.44	10.34
2004	1,344.66	29.89	9.67
2005	1,554.58	21.09	8.36
2006	1,848.93	5.96	13.17
2007	2,251.30	3.97	12.31
2008	2,360.47	4.24	11.79
Total	31,821.83	876.87	274.96

(ref.) The amount of ODA Loan and Grant Aid are E/N based. Technical Cooperation is JICA-disbursement based.

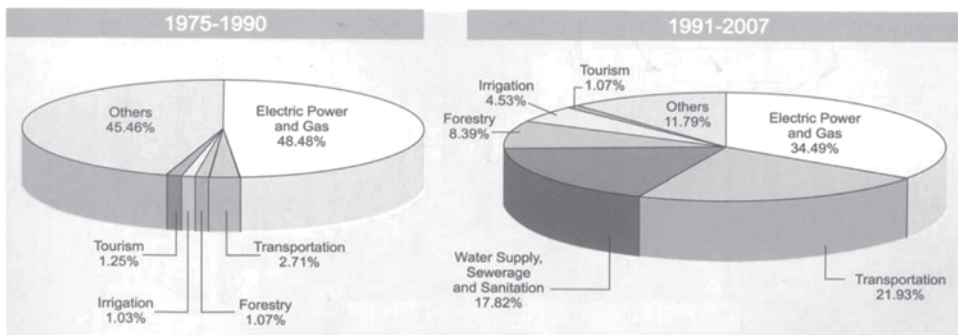
Source: Ministry of Foreign Affairs, Japan

Table II shows how Japan's ODA to India has risen steadily, particularly since 2002 and reached a record high during 2007-2008. In 2007, the increase in the volume over the previous year amounted to more than 20%. As has been mentioned earlier, the size of Japan's assistance to India is increasing at a time when its overall ODA volume is decreasing. In this connection, it is important to note a new procedure adopted by Japan to speed up loan approval procedures. Now, requests for loans can be

considered twice a year instead of just once. This new procedure was first applied to India during 2007-08 when loans were given to India twice within the same fiscal year.²⁸ In the next 2008-09 fiscal year too, India enjoyed this advantage.

Coverage of ODA loans: The ODA loans have covered an amazingly wide range of fields in accordance with the priorities stated in the Charter. Figure I outlines the broad economic and social sectors into which the aid has flowed over years. Power sector occupied a prominent position even during the 1990s. Transportation sector has enjoyed a great degree of salience since 2000 when the Delhi Metro system started receiving loans. The Figure also shows the increasing importance given to sectors like water supply, sanitation, sewerage and so on since 2003.

Fig 1: Japan's ODA Flows Into Different Sectors.



Data Source: JBIC, New Delhi

The following list mentions some of the most prominent projects that have received the assistance of Japan. Covering almost all states of India, they are in tune with the objectives clearly laid down in the revised ODA Charter. As mentioned earlier, these projects carry 1.3% or 1.2% (from 2007) annual rate of interest with 30 years tenure, including a grace period 10 years. For environmental projects, the interest rate is 0.75% per annum, with a tenure of 40 years including a grace period of 10 years.

Transport:

- a) Delhi Mass Rapid Transport System Project : Phase 1 and 2
- b) Kolkata East-West Metro Project
- c) Bangalore Metro Rail Project
- d) Chennai Metro Project
- e) Hyderabad Outer Ring Road Project Phase 1

Water Supply:

- a) The Guwahati Water Supply Project
- b) Hogenakkal Water Supply & Fluorosis Mitigation Project
Tamilnadu
- c) Kerala Water Supply Phase 1-3.
- d) Agra Water Supply Project
- e) Bangalore Water Supply and Sewerage Phase 1 and 2
- f) Goa Water and sewerage Project
- g) Amritsar Sewerage Project, Punjab
- h) Bisalpur-Jaipur Water Supply Project, Rajasthan
- i) Rajasthan Minor Irrigation Improvement
- j) Hussain Sagar Lake and Catchment Area Improvement Project,
Andhra Pradesh
- k) KC Canal Modernization Project II, Andhra Pradesh

Power projects:

- a) Simhadri & Vizag Transmission system, Andhra Pradesh
- b) Transmission system and modernization project in Hyderabad,
AP
- c) West Bengal Transmission System Project II
- d) Bakreswar Thermal Power Station Unit Extn, West Bengal
- e) Purulia Pumped Storage Project II. West Bengal
- f) Maharashtra Transmission System Project
- g) Bangalore Distribution Upgradation Project
- h) Tuirial Hydro Electric Power Project, Central Mizoram
- i) Dhauliganga Power Plant Construction, Central Uttarkhand

- j) Umium Stage II Hydro Power Station
- k) Karanpura Super Thermal Power Project, Central Jharkhand
- l) Rural Electrification Project in AP, Madhya Pradesh and Maharashtra

Forestry and environment:

- a) Orissa Forestry Sector Development Project
- b) Karnataka Sustainable Forest Management and Biodiversity Conservation Project
- c) Integrated Natural Resource Management and Poverty Reduction, Haryana
- d) Tamilnadu Afforestation Project III
- e) Tripura Forest Environmental Improvement and Poverty Alleviation
- f) Gujarat Forestry Development Project Phase II
- g) Swan River Integrated Watershed Management Project²⁹

Two Flagship Projects: Japan is closely associating itself with India's two mega projects which would give a huge boost to investment and industrial progress. The Delhi Mumbai Dedicated Freight Corridor envisages the construction of super speed connectivity for high axled load wagons. Covering a distance of 1483 kilometers between Delhi and the Jawaharlal Nehru Port, Mumbai, it will pass through six states—the Uttar Pradesh, Delhi, Haryana, Rajasthan, Gujarat, and Maharashtra. It is planned to develop an industrial corridor on both sides of the freight corridor covering an area of about 150 kilometers on each side. It is envisaged to develop the Delhi-Mumbai Industrial Corridor (DMIC) as a global investment and manufacturing destination with an accent on expanding manufacturing and services base. The DMIC proposes to establish 24 nodes or industrial and investment zones that would cover six states. Showing great interest in the two projects, Japan has recently signed two agreements with India. The first Memorandum of

Understanding signed between the DMICDP and the Japan External Trade Organization (JETRO) relates to the setting up of 24 eco-cities and smart communities in the specified project areas. The second agreement concerns a loan of \$75 million from the Japan International Cooperation Agency (JICA) as project development fund to quickly start the project. The DMIC has already aroused a great deal of enthusiasm among many Japanese business houses that look forward to opportunities for investment.³⁰

Japan's Direct Investment (FDI) and India: As has been noted earlier, during the initial decades after the attainment of freedom, India pursued an economic strategy that laid stress on import substituting industrialization with an accent on developing indigenous skills and capabilities in the manufacturing sector. The official policy on foreign direct investment was essentially restrictive and it continued until the 1980s when measures were taken to relax certain regulations. More than 40% equity shares were permitted in some exceptional cases depending on the importance of a given sector. In 1988, even a fast channel was established with a view to ensuring speedy FDI clearances. But a real change of official mindset on foreign investment occurred only after the Government launched its economic reforms in 1991. The new industrial policy brought about a paradigm shift in the attitude of the Government, which now looked positively upon foreign investment as a key instrument of industrial and technological growth.

The economic reforms coincided with a period of global surge in FDI outflows. Investment outflows from Japan also registered an impressive rise even from the 1980s. In 1985, they amounted to \$44 billion, but jumped to \$293 billion by 1999. Out of this, about two thirds of the outflows were directed to the US and Europe, while sixty per cent of the remainder went to Asia. Among Asian countries, the main beneficiaries

were China and the ASEAN group. What India received at that time was too miniscule to merit any serious attention.

Table III shows the glaring differences between the positions of India and China in terms of Japan's FDI during the 1990s.³¹

Table III: Japan's FDI to China and India during the 1990s

		(US million)							
Year	1991	1992	1993	1994	1995	1996	1997	1998	1999
China	579	1070	1691	2699	4478	2510	1987	1179	819
India	14	122	35	102	130	219	434	285	227

Though India was the biggest recipient of Japan's FDI in South Asia, its share in the overall Japan's investment compared to China's was negligible. From 1998, India's share even tended to decline due to the Asian currency crisis and India's nuclear tests in May, 1998.

The total FDI inflows in India during 1991-2009 amounted to Rs 5,390 crore (US \$ 124.2 billion). Inflows from Japan accounting for Rs 191.2 crore (US \$ 4.4 billion) made it the sixth biggest investor in the overall investment scenario of India.³²

Although Japan's investment in India since 2000 has been on the increase, it occupies only the 6th position among the investing countries. Japan with \$3.324 billion accounts only for about 3% of the total inflows during 2000-09. Table IV gives the shares of top investing countries in FDI equities inflows. It shows that Mauritius figures as the top most provider of FDI followed by Singapore (9%), the US (8%), the UK (6%) and the Netherlands (4%).

Table IV:**SHARES OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS (FINANCIAL YEAR-WISE):**

Ranks	Country	Amount Rupees in crores (US \$ in million)					
		2006-07 (April- March)	2007-08 (April- March)	2008-09 (April- March)	2009-10 (April- March)	Cumulative Inflows (April '00 to Sept. '09)	%age to total Inflows (in terms of rupees)
1.	MAURITIUS	28,759 (6,363)	44,483 (11,096)	50,794 (11,208)	31,761 (6,520)	193,034 (43,385)	44%
2.	SINGAPORE	2,662 (578)	12,319 (3,073)	15,727 (3,454)	5,763 (1,187)	39,615 (8,998)	9%
3.	U.S.A.	3,861 (856)	4,377 (1,089)	8,002 (1,802)	5,991 (1,244)	33,951 (7,579)	8%
4.	U.K.	8,389 (1,878)	4,690 (1,176)	3,840 (864)	1,364 (282)	24,268 (5,508)	5%
5.	NETHERLANDS	2,905 (644)	2,780 (695)	3,922 (883)	2,761 (571)	18,614 (4,161)	4%
6.	JAPAN	382 (85)	3,336 (815)	1,889 (405)	3,857 (793)	15,082 (3,324)	3%
7.	CYPRUS	266 (58)	3,385 (834)	5,983 (1,287)	3,871 (794)	13,920 (3,067)	3%
8.	GERMANY	540 (120)	2,075 (514)	2,750 (629)	1,815 (375)	11,304 (2,548)	3%
9.	FRANCE	528 (117)	583 (145)	2,098 (467)	891 (185)	6,373 (1,412)	1%
10.	U.A.E.	1,174 (260)	1,039 (258)	1,133 (257)	2,344 (484)	6,350 (1,404)	1%
TOTAL FDI INFLOWS*		70,630 (15,726)	98,664 (24,579)	122,919 (27,329)	74,378 (15,312)	467,504 (105,153)	-

Note: (i) *Includes inflows under NRI Schemes of RBI, stock swapped and advances pending for issue of shares.

(ii) Cumulative country-wise FDI inflows (from April 2000 to September 2009)

(iii) %age worked out in rupees terms & FDI inflows received through FIPB/SIA+RBI's Automatic Route+acquisition of existing shares only.

It is also useful to take a look at the sectors that have attracted Japanese investment in recent years.

The top five sectors that have drawn Japanese investment during April 2000 to October 2009 are as follows:³³

- Automobile Industry (31%)
- Electricals Equipment (14%)
- Telecommunications (9%)
- Trading (8) and
- Services Sector (7%)

As for technology transfers, India had signed 8,080 agreements with foreign countries during 1991-2009. Of these, 879 (10.82 %) were signed with Japan.

Table V: Country-wise breakdown of technology transfers.

Rank	Country	No of collaborations approved	%age of approvals
1	USA	1,832	22.67
2	Germany	1,115	13.80
3	Japan	879	10.88
4	UK	874	10.82
5	Italy	488	6.4
6	Others	2,892	35.79
Total of	All countries	8,080	100.00

Fact sheet on FDI from August 1991 to September 2009, Govt of India

The top five sectors covered by these collaborations are: Transportation Industry (262); Electrical Equipment (198); Chemicals (77) Mechanical and Engineering (53) and Industrial Machinery (48).³⁴

The economic reforms have undoubtedly created a new investment-friendly environment in India and this has been acknowledged by several global and Japanese sources. For instance, the periodical surveys conducted by the Japan Bank of International Cooperation (JBIC) have consistently given high ratings to India as an investment destination. In one of the recent surveys, India is considered the most favoured investment location for long term Japanese investment. Nearly 70% of the manufacturers regarded India as the most attractive country for investment in the next ten years.³⁵ The UNCTAD World Investment Reports for 2007 and 2008 considered India as the second most attractive location for Japanese investment.³⁶ Yet, Japanese investment in India accounts for only a small fraction in Japan's overall global investment. What are the reasons for the low level of Japan's interest in India? Numerous surveys have been undertaken to elicit the opinions of the Japanese companies located in India. While there is considerable appreciation of the improvements that have taken place in the business environment, there are also serious reservations on a number of issues. In this connection, it is important to note that the Japan Chamber of Commerce and Industry (JCCI) recently submitted to the Department of

Industrial Production and Progress (DIPP), Government of India, a long report on the difficulties that they face in India. Describing India's business climate as “tough”, JCCI highlighted numerous issues related to infrastructure, customs clearance, taxation, land acquisition, and official bottlenecks as obstacles to expanded investment from Japan.³⁷

Another important aspect of Japan's investment in India is that it is more oriented to the needs of the domestic market and not directly linked to export promotion. The sectors that attract Japanese investment like transport, electronic goods, power and telecommunication come under the category of “non-tradeables”. So far, India has not attracted export-oriented Japanese investment. In this sense there is a difference in Japan's investment in China and Southeast Asia. From 1985, following the Plaza Accord, numerous Japanese firms first shifted their manufacturing bases to ASEAN countries because of cheap labour and the relatively investment-friendly climate in those countries. Later, they were attracted to China for the same reasons. Even by the mid 1990s, Japanese affiliates in China directed about half of their manufactured goods to Japan. India has not fully utilized the export oriented Japanese investment so far, though one must note that of late, some Japanese automobile companies like the Maruti Suzuki, and the Honda Motors have made some beginnings in exporting their cars to third countries. Nissan Motor is also building a plant in Tamilnadu with a proposal to export its cars. If such new strategies are worked out, India could become a major hub for exports and the link between investment and external trade would become very beneficial.³⁸

Portfolio investment and its growth: Another trend that deserves to be noted is the steady increase in the number of portfolio funds through which the Japanese could invest in the Indian stock market. The India Portfolio Fund that was started only in 2004 has already attracted huge Japanese investments into the Indian stock market. The total asset of the

Japanese portfolio investment funds amounted to \$8.2 billion in March 2007.³⁹

Bilateral Trade: Bilateral engagement in trade has so far remained on a low key and the full potential of trade is yet to be tapped. A look at the Table shows that Japan has always enjoyed favourable balance of trade with India, except in 2001 and 2002.

Table VI: India-Japan trade

(Mil. USD)

	Japan's import from India	Japan's export to India	Total Trade
1998	2176	2402	4578
1999	2245	2419	4665
2000	2637	2486	5123
2001	2216	1923	4139
2002	2091	1866	3957
2003	2175	2384	4558
2004	2611	3043	5654
2005	3216	3539	6755
2006	4061	4489	8551
2007	4166	6142	10308
2008	5244	7918	13181

Source: Ministry of Finance, Japan
(Original figure available in JPY. Converted into USD @year-average exchange rate)

The volume of the two-way trade has steadily increased over years and reached a peak of over \$ 13 billion in 2008. The trend towards growth is noticeable after 2004. Particularly, Japan imported \$ 544 million-worth of petrochemical products from India in 2005 and the figure rose to \$1,130.4 million in 2006. Similarly, Japan's exports in machines, transport equipment and electronics registered substantial increases.⁴⁰ Even so, considering the potential of the two-way trade, the present volume still remains small and pales into insignificance if it is compared to Japan-China bilateral trade, which is twenty times bigger than that with India. Another point that deserves to be noted is that though the volume of India's global trade has rapidly grown, the share of Japan has

been decreasing, which only indicates that the potential of the Japanese market has not been fully utilized.

There has not been any significant change in the composition of trade and the major items of India's exports to Japan continue to be gems and jewellery, marine products, minerals, iron ore and textiles whereas Japan's exports have been mainly centred on machinery, transport equipment, electronic goods, chemicals and metal products. In other words, Japan's exports to India consist of products that are on the higher side of the value chain, but India's exports to Japan cover only the lower levels of the value ladder. Any significant breakthrough in the bilateral trade can occur only if India is able to diversify its exports. Even in 2006, Prime Minister Manmohan Singh referred to the “disproportionately small size” of Indo-Japanese trade and urged Japan to import India's knowledge-based products in the information technology and pharmaceutical sectors.

Information service industry: Though Japan is the second largest software market in the world and poised to grow further, it may soon face serious shortage of expertise. Considering India's strength in this area, it could step in to meet Japan's requirements. It is heartening to note that many of the leading Indian IT companies have set up their branches in Japan and the number of Indian IT experts based in Japan has increased. There is still enormous scope for Indian presence in Japan to grow if appropriate steps are taken to address some of the well-known shortcomings, like lack of linguistic and communication skills and unfamiliarity with Japanese business practices. It is time for both countries to work out well-planned targets and the methods to reach them. Japanese outsourcing in the IT field, for instance, amounts to more than \$50 billion annually. But India has not taken serious measures to attract Japanese investment. It should be remembered that China has also made rapid strides in the IT field and poses a challenge to India. It has attracted foreign IT giants by giving substantial incentives in the form of

tax concessions and facilities to import liberally the requisite equipment, components and spare parts. The functioning of the special economic zones in China has been very effective in attracting foreign investment and technology. India, which has also set up such zones, could draw some lessons from China's experience.

Prospective areas for trade expansion: In order to expand and strengthen all aspects of economic cooperation, a joint study group urged both governments in 2006 to take immediate steps to develop an Economic Partnership Agreement (EPA) or Comprehensive Economic Partnership Agreement (CEPA). In response, bilateral negotiations for such an agreement started in 2007 and, as of now, more than twelve rounds of talks have been held without arriving at an agreement. Both Manmohan Singh and Hatoyama expressed their hope that the agreement would be ready by the time the next summit meeting is held either in 2010 or 2011. It is to be noted that both India and Japan have already signed such agreements with several countries in East and Southeast Asia. It is reported that though both India and Japan have made considerable progress in their negotiations, there are still a few thorny issues that need to be resolved. For instance, Japan appears to be very touchy on the question of importing agricultural and pharmaceutical products, while India finds the former's non-tariff barriers posing serious obstacles to its exports. Tokyo feels that New Delhi needs to further liberalise its economy in many areas, and particularly curtail its bureaucratic red tapism.

Need for Strengthening Cultural Links: The full potential of the partnership cannot be realized unless the two countries understand the strong cultural ties that have bound them together through centuries. It was Prime Minister Yoshiro Mori who, while launching the global partnership, articulated the need for harnessing the cultural dimensions. Since then, top leaders of the two countries have seriously pursued his initiative. In their eight point formula, both Manmohan Singh and

Koizumi stressed the fact that cultural factors and stronger people-to-people contacts would create the right environment for carrying forward the vision of global partnership. Both agreed to work together to promote Japanese language studies in India with a target of 30,000 learners at different levels by 2010. They understood the importance of setting up new centres of Japanese Studies in Indian universities and Japanese language teaching cells in different Indian Institutes of Technology (IITs).

India has become a target country for the Japan Exchange and Teaching Programme. It has been agreed to sponsor the visits of 5,000 people over the next few years for learning Japanese language, gaining technological knowhow and for interaction among the youth. Although the implementation of these proposals has been in full swing, the targets have still not been fully achieved. According to available statistics, there are about 11,000 people learning Japanese in India and this figure marks a significant jump of 50% from the 2003 figure of only 5,000 learners.⁴¹ Though there has been a marked increase in the number, it still constitutes to be a negligible per centage of India's huge population.

The number of institutions offering teaching and research courses on Japan is too small to meet the number of the aspirants for the course. The Japan Foundation has played a notable role in the dissemination of knowledge on Japan, but it alone cannot cope with the mounting demands. Private business houses, both Indian and Japanese, unfortunately have still not developed a tradition of funding academic institutions. This is contrary to what the Japanese corporate world is doing in North America and many European countries in the promotion of academic and cultural activities. Even a small country like Sri Lanka had about 9,000 people learning Japanese in 2006. Most of the ASEAN countries have also registered remarkable growth in the number of Japanese language students and institutions related to Japan.

Indo-Japanese partnership has now come to be anchored on mutual understanding and respect for each other's achievements in diverse fields. There was a time when Japanese media used to portray India negatively. But today India has a fairly high profile in Japan supported by a growing Indian diaspora and several organizations that are interested in bilateral cooperation. Popular bookshops display latest Japanese publications on India's achievements as a stable and vibrant democracy that combines its rich cultural traditions with modern scientific and technological advancement. Periodical cultural festivals held in both countries have created a certain degree of familiarity about each other's literature, classical music, dance and drama. There is tremendous change in India's image in Japan, but there is still enormous scope for using our soft power to further strengthen the partnership.

Conclusion: The above study shows that Indo-Japanese ties have witnessed a paradigm shift since 2000, when Prime Minister Yoshiro Mori called upon both countries to launch a global partnership in order to effectively address a range of issues affecting regional and global peace and prosperity. Systematic efforts made by the leaders of both countries since then have deepened and strengthened this partnership. Until very recently, relations between the two were limited mainly to economic issues, but today the parameters of the partnership have drastically changed to include a wide spectrum of subjects including UN reforms, maritime security, energy cooperation, non-proliferation, counter terrorism, climate change, regional security and community building.

The partnership has been principally driven by a combination of strategic and economic factors. The rise of China as an economic and military power in Asia has undoubtedly provided a common concern. Both believe that they could play a useful role together in the construction of a new regional order based on certain common values. While they recognize that China, because of its economic and military strength, would be a significant player in regional affairs, they would not

wish to see Beijing emerge as a regional hegemon. Prime Minister Abe's proposal for a quadrilateral security understanding, Japan's success in including India, Australia and New Zealand in the East Asian Summit process and its recent security accords with Australia (2007) and India (2008) are clear manifestations of Tokyo's growing concerns in the security sphere. Both India and Japan are keen to see that the present regional equilibrium is not, in any way, disturbed by the rise of China. They believe that their interests would be best served if the Asian region continues to remain multipolar with no single regional power seeking a preponderant position. This is not to ignore the compelling considerations that impel India and Japan to avoid confrontation in their relations with China. China has emerged as their biggest trading partner with unlimited prospects in the spheres of investment and economic cooperation. Both India and Japan therefore consider it wise to engage China economically as well as in the security sphere. Expanded economic engagement along with greater transparency in Chinese military strategies in the region, they believe, could make Beijing a "responsible stakeholder" in the region and contribute to better understanding among the three major Asian countries.

Secondly, the bilateral partnership has also been driven by the economic complementarities that exist between the two countries. But the full potential of their economic ties cannot be realized until they increase the volume of their trade and investments. Negotiations for concluding a comprehensive economic partnership agreement are in full swing and when it goes into effect, it will give tremendous fillip to the growth of trade and investment between the two countries. Finally, in order to make Indo-Japanese ties truly multi-faceted, it is equally essential to factor their rich cultural links into the bilateral partnership.

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Annexure I

Joint Declaration on Security Cooperation between Japan and India

The Prime Ministers of Japan and India,

Affirming that Japan-India relations are rooted in their similar perceptions of the evolving environment in the region and the world at large;

Recognizing their common commitment to democracy, open society, human rights and the rule of law;

Affirming their deep respect for each other's contribution in promoting peace, stability and development in Asia and beyond;

Recognizing that Japan and India are partners with a mutual stake in each other's progress and prosperity, and that a strong and prosperous India is in the interests of Japan and that a strong and prosperous Japan is in the interests of India;

Recognizing that Japan and India share common interest in the safety of sea lines of communications;

Affirming their common commitment to fight against terrorism and recognizing that counter-terrorism efforts by Japan and India, including the Japan Maritime Self Defence Force's replenishment activities in the Indian Ocean, constitute an important part in the international community's effort to eradicate terrorism;

Reiterating their common commitment in pursuing disarmament and non-proliferation as partners seeking a peaceful nuclear-weapon free world and working together against proliferation;

Reaffirming their common commitment to a comprehensive reform of the United Nations, including the expansion of the United Nations Security Council in both the permanent and non-permanent categories;

Affirming the establishment of a Strategic and Global Partnership that is driven by converging long-term political, economic and strategic interests, aspirations and concerns;

Recognizing the importance of the steady and qualitative upgrade of mutual cooperation; and Committing to working together in the future by increasing practical cooperation among the foreign affairs, defence and other related agencies of the two countries;

Have decided to create a comprehensive framework for the enhancement of security cooperation between the two countries.

Elements for Cooperation

The following elements will be included in security cooperation between Japan and India;

1. Information exchange and policy coordination on regional affairs in the Asia Pacific region and on long-term strategic and global issues.
2. Bilateral cooperation within multilateral frameworks in Asia, in particular the East Asia Summit, ASEAN Regional Forum and ReCAAP processes.
3. Defence dialogue and cooperation within the framework of the Joint Statement signed in May 2006 between the two Defence Ministries.
4. Cooperation between Coast Guards
5. Safety of transport
6. Fight against terrorism and transnational crimes
7. Sharing of experiences in peacekeeping and peacebuilding
8. Disaster management
9. Disarmament and non-proliferation

Mechanisms of Cooperation

The following mechanisms will be included with a view to concretizing the above mentioned cooperation between the two countries;

1. Consultations will be conducted between the two Foreign Offices by way of;
 - a. Strategic Dialogue at Foreign Minister-level,
 - b. Meeting between the Vice-Minister for Foreign Affairs of Japan and the Foreign Secretary of India,
 - c. Dialogue on Disarmament and Non-Proliferation at Director General/Joint Secretary level,
 - d. Track 1.5 Strategic Dialogue.
2. Cooperation will be conducted between the two Defence Authorities by way of various ways such as;

- a. Meetings between the Defence Ministers,
 - b. Meetings between the Vice-Minister of Defense of Japan and the Defence Secretary of India including Defence Policy Dialogue,
 - c. Military-to-Military Talks at Director General/Joint Secretary level,
 - d. Exchange of service chiefs,
 - e. Navy-to-Navy Staff Talks,
 - f. Service-to-service exchanges including bilateral and multilateral exercises,
 - g. Exchange of students and researchers for respective defense institutions (for example, Indian National Defense College, Japanese National Institute for Defense Studies).
3. Consultation will be conducted between the National Security Advisor of India and the Japanese counterpart.
 4. The two Coast Guards will continue to promote cooperation to ensure maritime safety, maritime security and to protect marine environment through joint exercise and meeting between the two Coast Guards according to the Memorandum on Cooperation between the Japan Coast Guard and the Indian Coast Guard.
 5. In relation to the safety of transport, Shipping Policy Forum will be conducted between Maritime Authorities and private sectors, and consultation will be conducted between Railway Authorities.
 6. Comprehensive Security Dialogue will be conducted at Director General/Joint Secretary level.
 7. Bilateral consultation will be conducted to promote counter-terrorism cooperation through such means as Joint Working Group on counter terrorism between the relevant government offices including the Ministries of Foreign Affairs.
 8. Mechanism of sharing of information will be sought with regard to suspicious transaction on money laundering and terrorist financing between the two Financial Intelligence Units.
 9. Cooperation will be conducted to develop Tsunami Disaster Map in India.
 10. The two sides will promote capacity building in disaster prevention, preparedness, sharing knowledge and experience of both countries.
 11. Cooperation will be conducted between the Japan Aerospace Exploration Agency (JAXA) and the Indian Space Research Organisation (ISRO) in the field of disaster management.

Implementation Japan and India will develop an action plan with specific measures to advance security cooperation in the above areas and report to the Prime Ministers at an early date.

Tokyo, 22 October, 2008

Mr. Taro Aso
Prime Minister of Japan

Dr. Manmohan Singh
Prime Minister of the Republic of India

Annexure II

Action Plan to advance Security Cooperation based on the Joint Declaration on Security Cooperation between Japan and India

29 December, 2009

1. Strengthening Cooperation on Issues of Common Strategic Interest
 - Consolidate the Global and Strategic Partnership
 - Enhance information exchange and policy coordination on security issues in the Asia Pacific region and on long term strategic and global issues on the basis of the Joint Declaration on Security Cooperation
 - Promote open, transparent and inclusive regional cooperation in Asia, in both economic and security fields
 - Pursue bilateral cooperation in existing multilateral frameworks in Asia, in particular the East Asia Summit, ASEAN Regional Forum (ARF) and the Regional Cooperation
 - Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) processes

2. Strategic Cooperation Mechanisms
 - Annual strategic dialogue at Foreign Minister-level
 - Regular consultations between National Security Advisor of India and Japanese Counterpart
 - Annual Subcabinet / Senior Officials 2+2 dialogue (Ministry of Foreign Affairs and Ministry of Defense of Japan / Ministry of External Affairs and Ministry of Defense of India)
 - Foreign Secretary / Vice Minister level Dialogue (Basically twice a year)
 - Foreign Office Consultation (Basically once a year)
 - Annual Comprehensive Security Dialogue at the level of Joint Secretary, Ministry of External Affairs (MEA) and Ministry of Defense (MOD) of India/Director General, Ministry of Foreign Affairs (MOFA) and Ministry of Defense (MOD) of Japan
 - Maritime Security Dialogue
 - Annual Track 1.5 Strategic Dialogue
 - Consultation on regional issues between Foreign office and Embassy at capital basis

3. Defense Cooperation
 - Regular meetings between the Ministers of Defense
 - Annual Defense Policy Dialogue at the level of Defence Secretary / Administrative Vice-Minister of Defense
 - Annual Military-to-Military Talks between Joint Secretary, MOD of India, and Deputy Director General, MOD of Japan

Regular reciprocal visits between Service Chiefs of both sides

Regular Ground-to-Ground Staff Talks

Navy-to-Navy Staff Talks (Basically once a year)

Developing of Annual Calendar of Defense Cooperation and exchanges

(1) Exercises

Annual bilateral naval exercises, alternately off India and Japan, to enhance cooperation and core ability for maritime operation and disaster relief

Multilateral Naval Exercises, when possible

Passing Exercise (PASSEX) during ship visits

Participation as observers in major army and air force exercise

(2) Non traditional security threats

Exercise, exchanges and training on issues such as anti-piracy and transnational crimes Cooperation in anti-piracy operations between the Indian Navy and the Japanese Self Defense Force

(3) Exchanges / Seminars

Student / researchers exchange for respective defense institutions (including National Defence College, Defence Services Staff College and Institute for Defence Studies and Analysis of India; and National Institute for Defense Studies, Japan Ground Self Defense Force Staff College and Japan Maritime Self Defense Force Staff College)

Participation in major defense seminars/fora/training courses/shows

Exchange of cadets/young officers through ship rider programs and training seminars/interactions

4. Coast Guard Cooperation

The two Coast Guards will continue to promote cooperation to ensure maritime safety, maritime security and to protect marine environment through joint exercise and meeting between the two Coast Guards according to the Memorandum on Cooperation between the Japan Coast Guard and the Indian Coast Guard. The two Coast Guards will implement concrete measures based on the bilateral coordination and arrangements on subjects such as the content and timing of such cooperation.

5. Safety of Transport

Shipping Policy Forum to be conducted between Ministry of Land, Infrastructure, Transport and Tourism (MLIT) of Japan and Ministry of Shipping of India, with participation from the private sector

Consultation between Railway authorities of MLIT of Japan and Ministry of Railways of India

6. Information exchange and cooperation in the fight against terrorism and other transnational crimes
Mechanism for intelligence exchange and technical cooperation on counter terrorism such as Joint Working Group on Counter terrorism led by MEA of India and MOFA of Japan, with participation from concerned Government Agencies
Establishment of information exchange framework between the two Financial Intelligence Units (FIUs) on money laundering and terrorist financing Workshops / training
7. Cooperation at the United Nations
Regular dialogue and cooperation on UN reform including early realization of permanent membership of the UN Security Council of Japan and India, at the level of Deputy Vice-Minister, MOFA / Additional Secretary, MEA.
Mutual dispatch of lecturers / participants to UN peacekeeping operation-related seminars to be hosted by each side and exchange of experiences / information related to staff training
Regular Dialogue and cooperation on UN peacekeeping operations, including exchanges between Japanese Central Readiness Force / International Peace Cooperation Activities Training Unit and Centre for UN Peacekeeping (CUNPK) / Units experienced in peacekeeping operations from India, training of Japanese officers at the CUNPK, and sharing experience in and information on UN peacekeeping operations and peace building.
8. Disaster Management
Cooperation to develop Tsunami Disaster Map of India between MLIT of Japan and Ministry of Home Affairs (MHA) of India
Cooperation to expand the capability of Asian countries to advance their ability to provide a rapid, coordinated and effective Disaster response through an active participation in the next ARF Field Exercise to be held in Indonesia in 2011.
Capacity building through the Workshop on Water-related Disaster management conducted by the International Center for Water Hazard and Risk Management (ICHARM) of Japan
Sharing experience in landslide disaster prevention between National Institute for Land and Infrastructure Management (NILIM), Public Works Research Institute (PWRI) of Japan and National Institute of Disaster Management (NIDM) of India
Capacity Building for disaster management and sharing Japanese experience on disaster relief through training programmes conducted by Japan International Cooperation Agency (JICA)
Dialogue between National Disaster Management Authorities (NDMA) of India and Cabinet Office of Japan through Asian Disaster Reduction Center (ADRC) for sharing information on disaster prevention and preparedness.
Participation as observers in Japan's nationwide disaster management drill.
Sharing of disaster-related information between Japan Aerospace Exploration

Agency (JAXA) and Indian Space Research Organization (ISRO) through the "Sentinel Asia" process.

9. Cooperation on disarmament and non-proliferation
Annual Dialogue on disarmament and non-proliferation at the level of Joint Secretary, MEA / Director General of MOFA

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