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More FDI from Japan - India-Japan Ties

What is the issue?

- Japanese PM Suga Yoshihide is set to visit India for a physical summit with PM Modi.
- This should help strengthen ties, and India must leverage its special partnership with Japan to secure more investments, modern tech, and expand market access.

What are the scopeful areas of cooperation?

- The focus will be on strategic aspect.
- However, on the economic side, higher investment, digital economy collaboration, and promoting Indian exports to third countries are anticipated.

How significant is Japan to India?

- Japan provides about \$4 billion as annual ODA (Official Development Assistance).
- This supports projects for critical infrastructure and green economy.
- This includes the ongoing high speed railway project.
- With these, India remains interested in leveraging its special strategic partnership with Japan.
- This helps secure FDI, modern technology, and expand access into markets which it may have lost by keeping away from RCEP and TPP.

What role does Quad play?

- The Quad has played an important role in increased Japanese strategic interest in India.
- For Japan, the level of ODA and FDI are the strategic indicators.
- Japan seems determined to use these to enhance the partnership with India.
- Strategic Resilient Value Chains are assuming importance, too.
- These either support China+1 endeavour or enhance existing FDI to give the +1 impact without relocation.

- China +1, also known simply as Plus One, is the business strategy to avoid investing only in China and diversify business into other countries.
- The Quad vaccine initiative, where India will be the manufacturing hub, the US will provide the technological support and Japan the finance, is the kind of model India pursues.
- A Working Group on this is under way.
- During Suga's visit, the India-Japan-Australia Supply Chains Resilience Initiative (SCRI) may be firmed up.

What about ASEAN's scope?

- **Japan's intent** - Japan is keen to bring in ASEAN as a partner to the SCRI.
- Of the 1440 Japanese companies which are exporting from India, 26% do so to the ASEAN, utilising the India-ASEAN FTA.
- They would like to leverage these existing regional value chains for the SCRI.
- **India's stance** - India is not keen on this plan for now.
- Because, the inclusion of ASEAN could divert FDI from coming to India.
- India wants to use the SCRI to bolster its own economic initiatives and keep leverage when negotiating the revision of the India-ASEAN FTA.
- In this line, guidelines on how SCRI will function are expected to emerge from the summit. Connectivity and standards may be a focus of this.
- These will help in creating B2B collaboration.

What are the priority areas now?

- In 2018, Japanese companies had committed about \$10 billion over a few years.
- Since then, about \$2.75 billion came in 2019 and about \$1.25 billion in 2020.
- Closer follow up of those commitments will yield more results.
- Smaller investments focus on the digital space.
- Other segments of interest are medical devices, electronics, appliances, and food processing.
- For these, the PLI (Production Linked Incentive) scheme is being closely studied.
- FDI will further emerge once the proposals under the North-East Forum come to fruition.
- Cumulatively, Japanese FDI in India is over \$200 billion with \$35 billion in the last two decades.
- The idea of the Asia Africa Growth Corridor, though not so talked about now, is bearing fruit through exports.
- Japanese companies seek African markets for export, and often expand existing facilities with new FDI to create capacity for this.

- These plans often lead to regional production hubs which will generate more employment and exports.
- Japan believes that India has the best chance for a PTA (preferential trade arrangement) with AfCFTA (African Continental Free Trade Area (AfCFTA)) which will benefit their production lines.
- Such arrangements can get Japanese companies to enhance the quality of their FDI and raise technology levels for competitiveness beyond the Indian market.

What is ahead?

- Japanese ODA and FDI are key strategic elements in the partnership.
- While Japan needs India's IT capabilities, it realises the importance of manufacturing and job creation.
- The Japanese FDI is among the best in class of India's FDI partners.
- Thus, the upcoming meet could strengthen the strategic partnership with new elements of ODA and higher FDI which could be a marker for other partnerships.

Source: Business Line



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