

## **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**

