

Japan's ODA in India — Reminiscences



By Arjun Asrani

■ An Early Start

It was in 1958 when I had my first encounter with Japanese cooperation in India's economic development. Having joined the Indian Foreign Service in 1957, I was then undergoing a training program. This included spending a few months in a rural area far away from one's hometown so that a budding Indian diplomat should know the 'real' India before representing his country abroad. Having grown up in Bombay (now called Mumbai), I was sent to the area around the city of Mysore in the southern State of Karnataka. I was given many opportunities to witness the socioeconomic development programs in the area. One such occasion was the evaluation of the harvest of one particular farmer's rice field. He had been persuaded to divide his field into two parts – one part had been cultivated in the traditional fashion while the other part had used the *Japanese Method of Rice Cultivation*. I remember being told that this method involved: a) use of selected good seed for sowing; b) planting the seed at regular fixed distances; c) use of specified fertilizers in given quantities; and d) proper irrigation.

When the measuring of the harvested rice was completed, the *Japanese Method* obviously showed much better results; but the farmer, though uneducated, was clever enough to point out that the local government authorities had given him free seed and fertilizer for the demonstration. Since he was poor, would they arrange for the funds to provide the input in future? It was much later that I realized that I had been witness to perhaps the first step in the Green Revolution of India and also the beginning of Japanese involvement in India's long march of socioeconomic development.

I also learnt later, when I was first posted at the Indian Embassy, Tokyo, as a third secretary in 1960, that Japan had commenced its program of official assistance to developing countries in 1958 and that India was the first country to be so assisted in that year. It was perhaps no accident that India became the first recipient of Japanese ODA (official development assistance). Soon after the War, the Japanese were touched by Pundit Nehru's thoughtful gestures towards Japan and its people. The Japanese at that time felt gratitude for whatever India or Indians had done for their morale in the immediate postwar years. Indian nationalists who had always admired Japan's prowess in modernization were once again awed by the rapidity with which Japan had overcome its wartime devastation and the speed at which it was marching ahead to a fresh economic miracle. Long-term agreements on supply of iron ore from India had been concluded, some industrial joint ventures and technical collaborations had taken place and agreement had also been reached on avoidance of double taxation.

■ Relations Sustained by ODA

Between 1961 and 1984, however, India-Japan relations went through a somewhat indifferent period, partly because of Cold War considerations but much more because of India's inward-looking economic policies. However, even during this period, Japan's ODA to India continued and the relations remained cordial, though cool. In fact, according to my memory, some of the more significant development projects in India under Japanese ODA were signed and executed during this period. I have personal memories of negotiations on some of these landmark projects because I was Deputy Chief of Mission in the Embassy of India in Tokyo from 1970 to 1972 and the dealing Joint Secretary in the Indian Ministry of Finance during the period 1979-81. During this period, the Japanese ODA agencies for India went through two transformations. Until 1974, the agency concerned with India was the EXIM Bank of Japan. In 1975, the Overseas Economic Cooperation Fund (OECF) took over the ODA part and, in 1999, both were combined into the Japan Bank for International Cooperation (JBIC).

I remember an amusing episode of the early 1970s when the EXIM Bank was in charge of ODA to India. I was calling on the president of the bank and took the opportunity to suggest that assistance to India could be increased. The president then asked me whether India would be able to repay the debts when they became due (the Indian economy had gone through a rough patch in the late 1960s). As a young man of 36 or 37 years, I was somewhat taken aback. So I repeated to him a story my mother had told me on our traditional concept of creditworthiness. According to the story, a villager in my part of India, in the old days, had to approach the village moneylender for a loan. The moneylender wanted some collateral as guarantee for repayment. The villager promptly pulled out a hair from his moustache and offered it to the moneylender asking him to keep it safe because he would want it back on repayment of the loan. I suppose the moral of the story was that, for a traditional middle-class Indian, his honor (moustache) or reputation was the best collateral. To this day, I do not know whether the EXIM Bank president was impressed or took it as arrogance on my part!

■ Some Landmark ODA Projects

I referred to some landmark projects of Japanese ODA in India that have played a significant role in our economic development. Perhaps the most outstanding was the *Bombay High Deep Sea Drilling Project* under which India's first offshore jack-

Photo: Cochin Shipyard



A shipyard in Cochin, southern India: the country's biggest shipyard

up drilling rig, manufactured by Mitsubishi Heavy Industries, started drilling in the Arabian Sea, off the coast near Bombay, in 1974. Over the last 33 years, it has been associated with 14 major oil finds. It greatly reduced India's dependence on expensive imported oil, particularly after the oil crisis of 1973. Aptly therefore, it was given the name *Sagar Samrat* (Hindi for *Emperor of the Seas*). It has become such a legend in the history of Indian search for oil that, on August 14, 1982, the foundation day of the rig's Indian owner, *Oil & Natural Gas Commission*, the Government of India brought out a postage stamp depicting this rig to commemorate the success of its oil exploration program. Even the Reserve Bank of India, India's central bank, displayed the rig on its one-rupee notes in 1994, 20 years after the rig went into operation. I understand that this legendary rig is now being moved from offshore drilling to offshore production duties.

Another important project which received Japanese ODA during this period was the *Visakhapatnam Outer Harbor Project* on the east coast of India in the state of Andhra Pradesh. A major part of India's iron ore exports to Japan used to be loaded from its eastern ports, including Visakhapatnam, known as Vizag for short. As the Japanese bulk carrier ships grew larger and larger from 1,000 dwt to 100,000 dwt, it became increasingly difficult and uneconomical for them to load the iron ore from the then existing Vizag Harbor. Hence a deeper harbor to be called Vizag Outer Harbor was completed in record time around 1977. Since iron ore was the most important export item of India to Japan, the project benefited the Japanese importers as well as the Indian exporters.

One more project of significance was the Cochin Shipyard on the west coast of India, in the southern state of Kerala. It was established in 1972, again with the help of Japanese ODA.

Photo: Delhi Metro Rail Co.



Delhi Metro, connecting central Delhi and suburban areas, was financed by Japanese government credits of more than ¥160 billion.

Even today it is the largest shipyard in India and, currently, an aircraft carrier is said to be under construction there.

Several fertilizer production projects such as the Hazira Fertilizer Project in 1981, which helped our agricultural growth, also came under Japanese ODA. India had serious food shortages in the late 1960s. It was this period that compelled the country to go in for the so-called Green Revolution. Urea supplies from Japan under the ODA during the 1970s became an important and essential part of our successful efforts to increase yields and achieve self-sufficiency in food grains.

Other important sectors in which Japanese ODA has been outstanding in India over the decades are large power projects, forestry, rural electrification and river clean-up projects, highways and bridges, and also tourism projects, including conservation of ancient monuments. According to Prof. Kondo Masanori (*see the Japan SPOTLIGHT Sept./Oct. 2006 issue*), about half of Japan's yen loans have been for power projects, and about one-tenth of all the power supplied in India is thanks to Japanese assistance. However, the single Japanese-aided project that has made the greatest impact in Delhi in recent times is perhaps the *Delhi Mass Rapid Transport System Project*, popularly known as the Delhi Metro. It is a monument to India-Japan friendship.

Japanese technical cooperation programs through the Japan International Cooperation Agency (JICA) have also been helpful in South-South cooperation. I recall that JICA had a very successful sericulture development project in Karnataka State, which had been most helpful to the sericulture farmers. I learnt in the early 1980s that JICA was arranging for the successful Indian sericulture personnel to visit Bangladesh to transmit what they had learnt from Japan. I believe this program has also since been extended to other states in India.

Photo: Ministry of Foreign Affairs



Building a hospital for poor people of a rural area in the Thar Desert (Jodhpur, Rajasthan, northwest of India): a project financed by the Japanese government's grassroots human security grant aid.

The year 1984 saw some improvement in overall India-Japan relations with the visit of then Japanese Prime Minister Nakasone Yasuhiro, the first such visit at the prime minister's level in 23 years. This was followed by Prime Minister Rajiv Gandhi's visit to Japan in 1985. Perhaps in recognition of Mr. Gandhi's tentative efforts to open up the Indian economy, Japanese ODA to India, which had long stagnated at about 30 billion yen per annum, was doubled in 1986.

■ 'Friend in Need' during Crisis

The testing time for India-Japan friendship came in 1991 when our balance of payments position was under severe pressure. Our foreign exchange reserves had come down to under \$1 billion. The then government of Prime Minister Chandra Shekhar was only a temporary one. As Indian ambassador in Tokyo at that time, I realized how bad the situation was when I received insistent calls from Delhi asking me to arrange appointments for an urgent visit to Tokyo by our finance minister. The Japanese were in no mood to accommodate such an unplanned visit from a temporary finance minister at short notice. Besides, the Japanese were so convinced of the traditional prudence of the Indian Finance Ministry that it took much persuasion to convince them of our predicament. At long last, an appointment with the Japanese foreign minister was promised. We then had to use the good offices of all our Japanese friends in Tokyo to secure an appointment also with the Japanese finance minister. To cut a long story short, the visit did materialize and we secured the Japanese government's commitment to give us emergency quick-disbursement assistance of about \$300 million. In addition, the Japanese vice minister for finance also persuaded Japanese banks to roll over hundreds of millions of dollars in

short-term loans falling due from Indian entities at that time. Flushed as we are now, with nearly \$200 billion in foreign exchange reserves, it is difficult to imagine our panic at that time. Our then finance secretary was even seriously considering selling some of our valuable embassy property in Tokyo to avoid any default in our international obligations!

It was this timely help from Japan that gave us the respite until the IMF and World Bank could come to our assistance. Soon thereafter, Dr. Manmohan Singh (our present prime minister) became finance minister and made a special trip to Tokyo to thank the Japanese government and also to inform them of the wide-ranging economic reforms that have since brought about such a radical positive change in the Indian economy.

■ Continuing Relevance of ODA

I see a continuing need and relevance for Japanese ODA in India's efforts to overcome its problems of poverty and underdevelopment. Countries such as India are increasingly favoring assistance for infrastructure development. We feel that an average 8% growth in our GDP for over a decade or so could help alleviate many of our problems, including poverty alleviation and growth in employment. Besides, infrastructure development is of great relevance to our entire economic relationship with Japan. We would like to have more bilateral trade but, for various well-known reasons, such trade is intimately related to foreign direct investment (FDI). But FDI from Japan has been reluctant, I understand, because of lack of adequate infrastructure in India. Thus ODA for infrastructure becomes directly relevant to FDI and trade.

In the past, there was little problem in tying up Japanese ODA with infrastructure projects because most of such projects were in the government sector. The situation has changed to a large extent since we began our economic reforms. The government of India has been increasingly favoring the idea that many of these projects are best left to the private sector, with some incentives. India has been actively engaged in finding the appropriate policy framework which gives the private sector adequate confidence and incentives to invest in infrastructure on a massive scale, but simultaneously preserves adequate checks and balances through transparency, competition and regulation. I understand that the Japanese authorities too are examining ways and means of associating the private sector in implementing projects. Hopefully, some procedure may be arrived at to make the Indian infrastructure projects more interesting to Japanese companies.

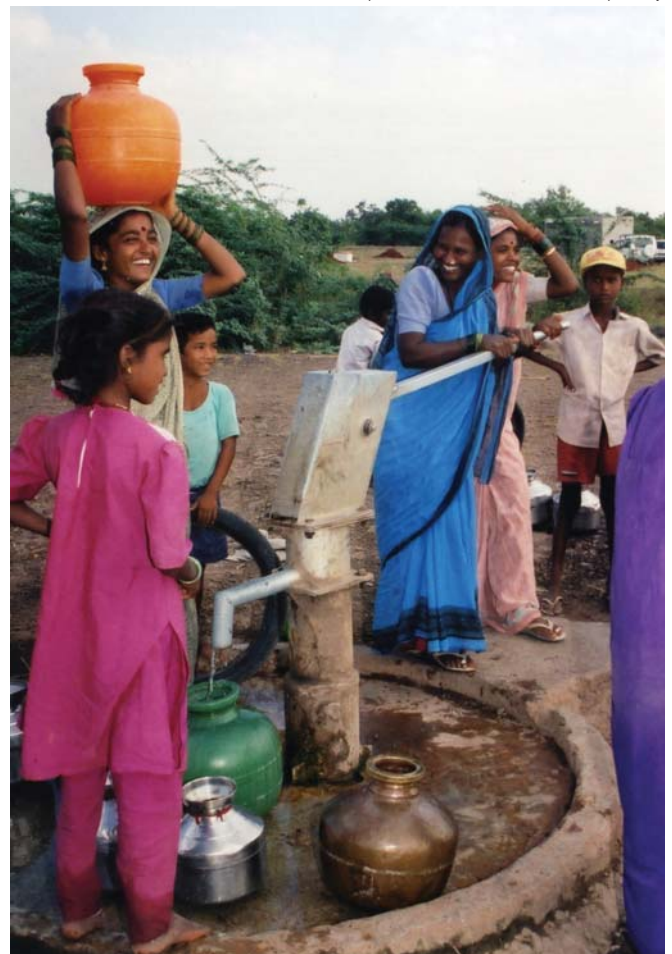
There is some criticism from well-intentioned young people, especially in the ODA-giving countries that, instead of giving away so much of the taxpayer's money for large infrastructure projects executed by multinational corporations in developing countries, the funds could be better spent more directly on poverty alleviation and human development. I wish it were that easy to eradicate poverty and illiteracy! Actually, one has to make a distinction between domestic efforts and foreign-

assisted efforts in the social or human development sector. For, in a country like India at least, it is not the dearth of domestic funds that makes poverty alleviation such a difficult task; it is the local political and administrative obstacles in a democratic environment, not to mention petty corruption, that make the process slow and inefficient. In such matters we have to find a solution ourselves, and we are trying to take the help of reputed NGOs as vehicles for some of the activities. Foreign assistance can do little in this regard, except, perhaps, for some amount of grant aid or technical assistance. We could, of course, also learn from the experiences of others who might have managed to overcome such problems in their own countries. I think the critics could also be made aware that actually, most of the ODA is through long-term low-interest loans, which are repaid in due course.

In addition to continued assistance in infrastructure projects such as power, ports, water, transport, environment, etc., I would welcome assistance in the fields of education, healthcare, tourism and small-scale industry. To this end I think there is need for the Japanese authorities to substantially increase their allocations for grant aid and technical assistance, which have not been very prominent in the past in India's case. In such matters of technical cooperation, what is important is not the sum of money involved but contribution of quality to human development. In India, we require an ever-increasing number of vocational training institutes which train skilled workers at a lower level as compared to the well-known Indian institutes of technology that produce higher-level engineers. Through such institutions, the transmission of Japanese work culture on the factory floor would be a valuable contribution to India's development at the grassroots level.

In this context, I must mention the commendable role being played by Japan's *Grant Assistance for Grassroots Projects (GGP)*. The amounts involved may not be very large, but the grants are given to relevant and reputed local NGOs by Japan's embassies. Through this channel, the embassies would be acquiring useful knowledge about the quality and performance of the NGOs.

The Joint Statement made by Prime Ministers Abe Shinzo and Dr. Singh during the latter's visit to Japan in mid-December 2006 is an important indicator of the future direction of Japan's ODA to India. The statement mentions the promotion of the "Delhi-Mumbai Industrial Corridor," supported by the Multi-modal Dedicated Freight Corridor between Delhi and Mumbai. This will include "cooperation in development of one or two sea ports on the west coast and industrial estates and special economic zones with high-quality physical and social infrastructure, and other initiatives, through collaboration between private and governmental sectors of the two countries, with the objective of developing the requisite infrastructure and facilitating investment." The two govern-



People using an NGO-provided well in Bijapur, Karnataka, south of India. The Japanese government also supports grassroots projects like this.

ments are reported to be discussing how to facilitate the development of this 'corridor', including the formulation of a master plan by the end of 2007.

For the last nearly two decades, Japan has been the largest bilateral source of ODA to India. I understand from JIBC that the cumulative figure is about JPY 2.44 trillion covering 193 loans on a commitment basis, in addition to former JEXIM's JPY 239 billion covering 170 ODA loans. Since the last three years, India has been the biggest beneficiary of Japanese ODA. Our relations are now developing in a larger framework of "Japan-India Strategic and Global Partnership," but ODA has clearly been one of the major bonding factors between the two countries.

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