

Indo-Japanese Economic Ties: Prospects & Outcomes Under New Prime Minister



Author Sanjeev Sinha

By Sanjeev Sinha

Although India has leapfrogged from primary to tertiary industries, such as information technology, it lags behind in manufacturing due to a lack of infrastructure. The manufacturing industry is essential to achieve balanced growth in such a huge country, to create large-scale employment and to manage the trade deficit. Given its great pool of young human resources, excellent environment for intellectual property development and protection, and strategic location, India has attracted great interest from Japan with regard to manufacturing, but poses a great challenge due to its lack of the high-quality infrastructure that Japanese manufacturers are used to in Japan. In this context, the most valuable contribution Japan can make to India's development is in the field of large scale, high-tech and long-term infrastructure development, including the financing thereof. In addition, India can expect four qualities from Japan – safety, environmental friendliness, ergonomics and strategic trust – leading to a low life-cycle cost. A combination of such qualities is very desirable but also creates a complexity in the assessment and decision-making process.

Let us look at these aspects more closely and see how the government of new Prime Minister Narendra Modi can help in the matter.

The Nature of Potential Japanese Collaboration with India

Japan is well-known for its bullet trains, which probably rank as the world's best in terms of length, speed, frequency, service and most of all safety: not a single accident fatality despite many severe earthquakes in a history of more than 50 years. The remote rural parts of Japan are also well served by public transport despite very mountainous terrain due to bridges and tunnels. Japan's urban transport systems are also a wonder, with greater Tokyo having the world's most extensive urban rail network of 158 lines with 2,200 stations serving 40 million passenger rides daily, a little more than the total population of the region, which is also world's largest urban conglomerate, at about 35 million. This is complemented by frequent bus operations as well as developments in pedestrian and bicycle friendly urban planning, and topped by an impressive overall safety record.

Crucially, since the global financial crisis following the Lehman shock, Japan stands out as having a large financing appetite in terms of amounts and time periods. Japan is already the biggest financier for the Asian Development Bank, which in turn has India as its biggest recipient, while the Japan International Cooperation Agency is a leading ODA provider, with India being its largest recipient for many years. The Japan Bank of International Cooperation provides loans of up to 40 years and has a strong interest in India.

Now is precisely a time when India is in need of infrastructure and long-term financing for it.

Photo: the Official Website of the Prime Minister of Japan & His Cabinet



Japanese Prime Minister Shinzo Abe and Indian Prime Minister Narendra Modi are pictured at an Omotesenke tea ceremony practice room in Tokyo during the latter's official visit to Japan from Aug. 30 to Sept. 3, 2014.

Growth of Demand in India

We have seen strong demand for good quality infrastructure in India over the last decade. Until the early 1990s the masses in India preferred free roads, which were purely a responsibility of the government. Due to various political and government inefficiencies, the quality of public infrastructure development was very poor, while the government was also under huge fiscal pressure due to lack of tax revenues. This lack of infrastructure also resulted in the lack of a manufacturing industry which crucially depends on infrastructure

and hence India continued to be too dependent on imports both for energy and manufactured goods. The fiscal and trade imbalances grew to a state of crisis and forced India to take major steps in economic reforms in the early 1990s.

With economic liberalization a new momentum in the Indian economy kicked in. India saw major foreign direct investments coming in and also the timing coincided with the Y2K problem in the global IT industry which demanded huge software manpower. This was an area India could excel in, given the extensive knowledge of English. The IT industry created a new confidence and global exposure in India. As Indian people travelled more frequently to developed countries for various IT-related jobs they brought back a new expectation of quality. Global exposure through TV and other means also created new standards of quality and there was a new demand for high-quality infrastructure even if it meant paying for the use, like toll roads. In the wake of the economic liberalization India quickly adopted privatization of infrastructure and saw more and more of the private sector coming into infrastructure development and operations through PPP models. This new demand and PPP paradigm provides a platform for Japanese collaboration in India.

Difficulties in Infrastructure Development

Despite the new demand, however, various political and regulatory complexities across different ministries and authorities have hindered proper planning and decision making on large scale projects, and that's where there are great expectations of the new government. Modi's government, being a powerful single-party government built on the success of the Gujarat Model, is in a good position to expedite decision making on large and complex infrastructure projects, which would create the right opportunity for Japan to become engaged.

It is more than 30 years since India has had a single party majority in the central government. During these three decades India had coalition governments of various compositions including community parties, regional parties and religion-based parties with varying agendas. This led to great difficulty in reaching agreements with long-drawn-out debates on various aspects of social, environmental, religious, political and economic issues. The nature of the coalition governments also established a model of pacification and appeasement by creating too many ministries, reaching around 75 ministers at times, so that more and more members from different parts of the coalition could be accommodated as a minister, which further complicated the decision-making process.

The election of Modi and the formation of his government is also very different from the last single party majority government formed in 1984. In that year the assassination of Prime Minister Indira Gandhi led to a wave of sympathy that saw her son Rajiv Gandhi, who had little political experience, become prime minister at the head of a single party majority government. The differing agendas and styles of the various political parties made even the most obvious of decision-making processes too complex. Due to severe political competition, often one party would block a decision merely to stop another party getting credit for a good project. Given the lack of good public media and education, there was also a lack of sufficient debate and analysis among the public which further encouraged the political parties to continue with their own petty agendas.

New Political Process Leading to Modi's Election

This year's election witnessed a very different approach led by intense debates and information propagation through online media like Facebook, Twitter, WhatsApp and others.

As I have mentioned, India continued to lack physical infrastructure due to inefficiency in decision making, development and financing processes, but it could excel in the IT industry due to the advantage of English and the independence of large-scale physical infrastructure for the IT industry. One other relevant factor here is the theoretical and debate-loving mindset of Indian people.

The Indian constitution allows a great degree of freedom of speech and expression, and this has helped lead to an IT-driven online media in India. While India is still far behind in terms of printed media, it has surged forward in online media. Social Network Systems have further contributed significantly to online information propagation and analysis. The online media also has the natural virtue of being better connected with the educated and technologically more savvy people of India who are better able to judge the political agenda and are more respected opinion leaders in their respective communities. With a recent surge in mobile phones, including smartphones supporting SNS features, the latest elections were dominated by a very active debate on SNS and online media.

Global exposure and economic liberalization also put the economy and good governance on a higher agenda than the religious and regional political agenda which had mostly dominated elections in the past. Modi's humble background of childhood poverty and being an active member of a nationwide grassroots Hindu organization called Rashtriya Swayamsevak Sangh (RSS) also contributed to his popularity among the masses.

Modi's Track Record in Gujarat

India is well known to be a very diverse country. This diversity is not just evident in natural and cultural terms but also in the economic situations in different parts of India. Different states of India have very different levels of economic development and infrastructure as well.

Modi headed the state of Gujarat as chief minister of the state from 2001 to 2014. The progress made by the state during this period was a major factor in his election as well. Gujarat is one of the leading states by various criteria. It is among the very few states with a sufficiency of electricity, with electricity production growing 2.5 times during Modi's tenure. Gujarat also has a better quality of roads compared to the average condition in India, and the total length of roads in the state grew by 3.6 times during Modi's term in office.

The whole of India is now expecting a similar process of growth throughout the country under Modi's premiership.

Style of Governance

Modi's style of governance in the state of Gujarat speaks volumes about his methods. While corruption is a big problem in various aspects of life in India, Modi himself is known to be a clean and selfless individual. He is also a very hard-working person, sleeping only a few hours each, and demands the same from his administration. He is known to be a hands-on person with an excellent memory, remembering the people in charge of particular projects as well as performance parameters and deadlines, and will often personally follow up on matters directly by phone.

Through this process Modi built a close-knit network of bureaucrats around him in Gujarat whom he has also taken along with him to the central government into the Prime Minister's Office. A large part of critical decision making is done at the Prime Minister's Office directly under his supervision. This is quite unlike the methods of previous prime ministers who delegated decision making to various other senior politicians as well as other members of the ruling party.

As already mentioned, for various reasons including the nature of the coalitions, the number of ministers had risen to 75 in previous governments. Modi has slashed this to around 25, a step towards a more compact government in line with one of his election campaign's slogans. Most of the senior ministers are younger than Modi, who is 64, and are also strong followers of his, which along with his decision-making process has led to analogies with the White House style in the United States.

Role of Japan in Modi's Plans

The Modi government has plans to build 100 new smart cities, and Japan has some of the world's best technology and implementation examples, such as Yokohama. Japan has leading transport system technology and expertise in construction of ports, airports, highways and railways, as also noted above. In India there are many accidents on the transport systems, so safety is another attractive aspect of Japanese technology. Japanese bullet trains are equipped with systems that can detect an earthquake about a minute in advance and special systems for emergency braking from high speeds of around 300 kilometers per hour within a minute.

With disasters such as earthquakes and typhoons being quite common in Japan, such preparedness enables life and work to continue almost as normal despite such occurrences. As a personal experience, following the devastating earthquake and tsunami of March 11, 2011, my Japanese colleagues continued to work to meet a promised delivery for a client that same afternoon. My worried brother from India researched and informed me that my office building was among the strongest in the world in terms of earthquake resistance and that it would be safer for me to stay in Tokyo for the time being. Such earthquake-resistant construction technology is also desirable for India where significant quakes also occur occasionally.

Nuclear power is seen as an important source of energy and India and Japan have been in discussions on potential collaboration in civil nuclear technology. Japan's experience in dealing with the disaster at the Fukushima Dai-Ichi Nuclear Power Plant following the Great East Japan Earthquake will also be useful in such collaboration, which is high on Modi's list of priorities.

After safety, the quality of environmental friendliness is demonstrated by Japan's having the lowest carbon footprint per dollar of GDP among major countries. As the world is already facing a serious challenge from climate change and India catches up on per capita energy consumption with the industrial world, it's important for all developed and developing nations to adopt eco-friendly technology across the life cycle of production, usage and disposal. Japan has some of the best low carbon emission power production technology across different sources like thermal, hydro, solar, wind, geothermal and nuclear. Not many countries have enough of such technology or the capacity to finance it. With more than \$100 billion of assets under management, one of the prime mandates of the Japan Bank of International Cooperation (JBIC) and Japan International Cooperation Agency (JICA) is the environment. Already

there are many environmentally friendly projects financed by the JBIC and JICA in India, but there is still a tremendous untapped potential that Modi's plans for smart cities and new energy projects could tap.

As the Resident Representative in Japan for GMR Urban Infrastructure, a leading infrastructure development and operator group in India, I facilitated a memorandum of understanding between GMR and JBIC on bilateral collaboration in technology and capital, and can bear witness to the willingness and potential for cooperation between both countries.

Lastly, another very important quality I would mention is the deep mutual trust between the two countries on strategic matters. While India helped Japan with early diplomatic recognition and natural resources following World War II, JICA was founded with India especially in mind and continues to work for the humanitarian development needs of India. Despite not being an English-speaking country such as the United Kingdom, the US or Singapore, Japan is greatly trusted and respected in India.

Moreover, in India's desperate need to reduce import costs by promoting domestic electronics manufacturing Japan can be an ideal partner, as Japan too needs markets for the survival of its high-tech electronics industry. India offers a holistic and near green-field opportunity for Japan to start cost-effective manufacturing in newly planned Electronics Manufacturing Clusters and cater to an expected \$400 billion Indian electronics market by 2020.

The high cost of Japanese technology is an often cited concern, but this could well be compensated for by low-cost long-term

financing by cash rich Japan, along with reduced life-cycle costs in the long run. This raises the possibility of dedicated Japan-India funds which could support Japanese technology with Japanese financing.

A combination of technology with government financing could provoke debates on the international competitive bidding processes and the various guidelines of the multilateral organizations like the World Trade Organization, IMF and Asia Development Bank. Also a longer and more rigorous life-cycle assessment process is required to fully appreciate the economic feasibility and attractiveness of a Japanese technology and financing package.

India has seen too many examples of cheap technology and inadequate planning processes leading to the failure of various infrastructure projects. This includes power plants, city development and other infrastructure projects. The problem is often exacerbated by the corruption involved in the process. India, as well as foreign investors from Japan, is looking for strong leadership from Modi to enforce a rigorous due diligence and planning process, build confidence in future quality, and combat corruption. Two major free market democracies with common traditional values and mutual trust have perfect economic complementarities whereby Japan can provide the technology and finance for the development of India and India can reciprocate with a huge growth market and human resources for the aging society in Japan. The "most potent bilateral relationship of the world", as Japanese Prime Minister Shinzo Abe proclaimed during his visit to India in January 2014, has been waiting for strong leadership from both sides. With the election of Modi and formation of his government, expectations are now very high indeed.

Photo: the Official Website of the Prime Minister of Japan & His Cabinet



Prime Minister Shinzo Abe delivers an address at a science and technology seminar at an India-Japan Business Forum.

Going Forward

One of Japan's most significant contributions to India would be in large-scale infrastructure projects like ports, smart cities, railways and industrial zones, requiring both reliable eco-friendly technology and long-term financing. With a strong new government in India, it is reasonable to expect effective decision making on such large-scale projects and hence a new paradigm of effective Japanese collaboration with India.

JS

Sanjeev Sinha is director of Deals, PPP & Infrastructure at PriceWaterhouseCoopers, advising on cross-border investments and business strategies between India and Japan.