

Far short of the potential

Indian Prime Minister Narendra Modi with his Japanese counterpart Shinzo Abe. File Photo. | Photo Credit: [AP](#)

In theory, it's hard to find two nations that make a better economic fit than fast-growing, populous India and rich, demographically challenged Japan. India needs technical expertise and investments to develop its infrastructure, while Japan has capital to spare and know-how to share. They have a common strategic objective in countering Chinese hegemony in Asia, a goal that can be best met in collaboration. And they enjoy a rare historic amity, being geographically and culturally close, but not too close and, therefore, free of contentious issues such as border disputes.

Consequently, Prime Minister Narendra Modi and his Japanese counterpart Shinzo Abe have worked hard to upgrade ties. Regular high-profile bilateral visits have brought with them a smorgasbord of memoranda of understanding, some big-ticket projects, notably Japanese investment in India's first bullet train, and political avowals to grow the economic relationship exponentially.

There are now 1,369 Japanese companies and over 4,800 Japanese corporate offices active in India. Japanese investment in India totalled \$4.7 billion in 2016-17, up from \$2.6 billion the previous year. Japan currently ranks as the third largest investor in India.

And yet, the India-Japan economic relationship remains underwhelming both in relation to its potential, and to the ties that each nation shares with China. According to Japan External Trade Organization (JETRO) data, China received about five times more Japanese investment between 1996-2015 (\$116 billion) than India did (\$24 billion). Japan-India two-way trade — \$13.48 billion in 2016-17 — is also a fraction of the \$350 billion China-Japan trade relationship or even India-China trade (\$84.44 billion in 2017). In fact the share of India-Japan trade in Japan's total trade basket is barely 1% and it is a little over 2% of India's trade with the rest of the world.

The gap cannot wholly be explained by the usual suspects that plague foreign investors in India such as inadequate infrastructure, complex tax regulations and land acquisition problems, although these remain substantial challenges.

Tomofumi Nishizawa, manager of JETRO's Overseas Research Department, spent five years at his organisation's India office, till 2015. According to him it takes Japanese companies in India longer than their Korean or Chinese counterparts to learn how best to localise their products for the Indian market.

He elaborated with the example of air conditioners. The Japanese tend to think that the most important element is the quality of the air conditioner so that it is able to last without the need for repairs. But in India it is cheap to have an air conditioner repaired and technicians are abundant. The consumer is therefore more focussed on cost than durability. Japanese manufacturer Daikin, which recently opened a second manufacturing facility in Rajasthan, is an example of a company that eventually cottoned on to this, switching from importing expensive parts from Japan to sourcing them locally.

But the greatest challenge according to Mr. Nishizawa is cultural: an outdated and negative image of India. He said that employees picked for jobs in India often act as though they have drawn the short straw. The larger corporations may realise India's potential, but small and medium enterprises are the worst culprits of this attitude. "Maybe our attitude can be called racist," he said.

“It is very difficult to change it.”

The difference in the cultural relationship to punctuality is another stumbling block. In Japan, being on time is akin to religion, whereas in India, time is fungible. Ultimately, Japanese corporations are strongly risk averse which makes it difficult for them to cope in the freewheeling, jugaad-proud environment of India, where flexibility and impromptu decision making are necessary skills in the business arsenal. Mr. Nishizawa says, “We (Japan) are not the global norm, but we act like we are. Unless we become more flexible and adapt better to other ways, we will not succeed.”

But this pessimism can be overblown. A recent development that bodes well for the future is the collaboration between Japan’s Panasonic and India’s Tata Elxsi to develop smart solutions and products for Panasonic customers in India and the neighbouring region. “This is only possible in India because it has the capacity and skills for engineering design that can match Japanese requirements,” says Mr. Nishizawa. Roping in more Indian companies to develop and design Japanese products for the South Asian market could be one major way forward in deepening the bilateral engagement

The other is the use of India as a manufacturing base for markets in Africa, a trend that is interesting to Japan’s business strategists. Existing examples include Hitachi Construction Machinery’s joint venture with Tata whose Kharagpur plant is a hub for exports to developing countries, as well as auto major Nissan, which exports the India-made Datsun ‘GO+’ to South Africa.

And yet as Mr. Nishizawa concludes, “The G (government) to G relationship is far ahead of the B (business) to B.” Closing this distance remains a tough ask.

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The India-Japan economic relationship remains underwhelming in relation to strategic ties

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