

Policy Perspective

India-Japan Technological Roadblocks

Summary

The trade between India and Japan was worth \$18.43 billion in 2012, a 34% increase from the previous year. Given the deepening strategic importance of the relations between the two countries, this figure is almost insignificant in comparison to the far higher levels of India's trade with countries such as the U.S. and China.

Trade between India and Japan remains relatively low for several reasons. First, there is clearly a lack of understanding on both sides of mutual expectations and capacities, at the level of the government as well as the consumer. For example, the multi-billion dollar Delhi-Mumbai Industrial Corridor (DMIC) – the only other dominant visible bilateral engagement between India and Japan besides Maruti-Suzuki – is plagued with policy and power issues.

Second, there is little awareness in Japan of what Indian consumers want – a demand that South Korean companies comprehended and subsequently captured market share.

Perhaps most central of all is the fact that Japanese technology, widely acknowledged to be the best in Asia, seems to have few takers in India, particularly Japan's advanced infrastructural technology.

Dimensions

1. Stalled projects: The Indian government approved the DMIC in August 2007. Nearly six years later, with the \$90 billion project ready for takeoff, there are policy and resource hurdles, such as the slowdown in the allocation of coal blocks to power the project and the civil aviation ministry's red flag to the proposed Alwar Aerotropolis airline hub in Rajasthan. Japan has already put \$4 billion into the project, but the progress does not match the investment. Japanese companies are therefore frustrated with India's slow pace.

2. Coordination amongst ministries: The stagnation of the DMIC is partly linked to the inability of various states to coordinate and acquire land, permits, and resources to facilitate the project. The multiplicity of India's government agencies – which implement infrastructural projects – and poor coordination between the central and state governments, are problems for the Japanese government and investors unaccustomed to Indian systems. A lack of coordination amongst the ministries of both countries is adding to the confusion. Despite these drawbacks, the Japan External Trade Organization (JETRO) signed an agreement with the Maharashtra Industrial Development Corporation (MIDC) to work on DMIC-related infrastructure. In Rajasthan, JETRO has begun the process of setting up industrial zones as part of the DMIC.

3. Low demand for high technology: There are few takers for Japanese technology in India. Japanese companies have identified urban development and transportation technology as potential areas for participation in India. But does India want or need this technology? It may not be in India's best interests to simply adapt Japanese technology. For example, infrastructure technology must be tailored to an India-specific environment. Or, India may want a high-speed rail system, but will have to completely overhaul the current rail tracks and gauges to use the Japanese system.

4. A lack of awareness about India in Japan: Japanese CEOs are not adequately aware of India, and its needs and practices. The visibility of Indian companies, especially IT groups, is low in Japan. Bewildering policy instruments like the Local Body Tax only add to their apprehensions about working in India.

Policy Perspectives from Gateway House give an overview of a global issue that has implications for India's policy-making and business community. Each perspective summarises the criticality of the issue, lists the dimensions to be considered for analysis, and outlines how a policy can be designed or executed.

5. Competition from South Korean and Chinese companies: Japanese companies are miles behind their Korean and Chinese counterparts, which have a strong presence in the Indian market. Japanese companies tend to be more technology-oriented than South Korean companies, which are more market-oriented and create products that resonate better with Indian consumers. China's approach to intellectual property rights is ambiguous at best; still, its companies are able to sell low-cost products at prices with which Japanese companies cannot compete.

6. Refusal to cooperate in the defence sector: An important factor in the furthering of India-Japan technology exchange and trade is cooperation in the defence sector. Japan is unwilling to amend its pacifist Constitution, but a significant shift in policy is likely with Japan's proposed sale of military hardware to India – the first since its self-imposed ban on arms export in 1967. Japan has offered to sell indigenously-designed US-2 amphibious aircraft to India, though only for civilian use. India wants more than that, including nuclear technology. However, an anti-India lobby within the bureaucracy in Tokyo threatens to put the roadblock of non-proliferation in the path of any major India-Japan defence agreement.

The way forward

1. A triangular relationship, involving the U.S.,

instead of a bilateral one, is one likely way forward. In 2008, an Indian executive suggested to a Japanese bank that it acquire failing U.S. banks and use Indian information technology and its low-cost but robust processes to help restructure and re-operationalise the banks to become profitable. A model exists: Sumitomo Bank survived and thrived because it used Indian IT. Other Japanese banks can follow. Another beneficiary of this triangular relationship can be an automobile manufacturer like Toyota, using Indian IT skills for its products for the U.S. market.

2. The DMIC is based on a mutual understanding between the two countries. Using this template more corridors can be built, such as the proposed Kanpur-Krishnapatnam corridor.

3. Japanese investor interest in India has spiked again. Japanese buyers are now at the top of the M&A lists for India. Partnership opportunities are also awaiting, especially in the auto parts sector, involving Indian and Japanese SMEs. Japanese SMEs use high technology in the auto parts industry, for which they own valuable patents. If Indian companies were to engage their Japanese counterparts in this sector, the levels of technology trade between the two countries could grow.

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