KKI

Policy Brief

KE-2022/68

Japanese FDI in India Part I

From the Licence Raj to the Modi–Abe Years

Japán közvetlen beruházásai Indiában I.

A Licence Rajtől a Narendra Modi–Abe Shinzo miniszterelnök párosig

ZSOLT TREMBECZKI

INSTITUTE FOR FOREIGN AFFAIRS AND TRADE

KKI Policy Brief
Series of the Institute for Foreign Affairs and Trade

Publisher:
Institute for Foreign Affairs and Trade

Reviewed by:
Tamás Péter Baranyi

Typesetting:
Tamás Lévárt

Editorial office:
H-1016 Budapest, Bérc utca 13-15.
Tel.: + 36 1 279-5700
E-mail: info@ifat.hu
http://kki.hu

ISSN 2416-0148
https://doi.org/10.47683/KKIElemzesek.KE-2022.68

Abstract: In March 2022, while celebrating the 70th anniversary of Indo-Japanese diplomatic relations, Japan's Prime Minister announced his country's plan to invest USD 42 billion in India over the next five years. This policy brief, the first in a two-part series dedicated to India–Japan investment relations, examines whether, if realised, this plan would be a true game changer in Indo–Japanese investment relations. It finds that, historically, Japanese investments in India have mostly followed the broader trends in India's ability to attract FDI, as well as Japan's global investment position, and while over the last eight years Indo–Japanese diplomatic relations have intensified remarkably, this has only translated to a mild relative (although significant absolute) increase in Japanese investors' role in the Indian economy. Against this background, the realisation of PM Kishida's March announcement would only require a moderate uptake in the trends of the past decade. Whether this happens, however, is more a function of India's ability to implement further meaningful reforms than of the spirit of high-level bilateral relations.

Keywords: India, Japan, Indo-Japanese diplomatic relations, India–Japan investment relations, South Asia, FDI

Összefoglalás: *India és Japán 2022 tavaszán ünnepelték diplomáciai kapcsolataik felvételének hetvenedik évfordulóját. Márciusban az Indiában látogatást tevő Kisida Fumio japán miniszterelnök bejelentette: Japán az elkövetkező öt évben 42 milliárd dollárt szándékozik befektetni a dél-ázsiai országban. Jelen írás egy kétrészes sorozat első tagja, amelynek célja annak felmérése, e terv megvalósítása valóban fundamentális előrelépést jelentene-e a Japán és India közötti a befektetési kapcsolatok alakulása terén. Az alábbiakban bemutatjuk, hogy Japán történelmileg Indiába irányuló működőtőke-befektetéseinek alakulása jórészt együtt mozgott az India általános tőkevonzó képességében, illetve Japán globális tőkebefektetési pozíciójában megfigyelhető trendekkel. Mindemellett, noha az elmúlt nyolc évben az indiai–japán kapcsolatok jelentős fejlődésen mentek keresztül, ez a japán befektetések Indián belüli súlyát vagy India japán befektetők számára való fontosságát tekintve csak mérsékelt (igaz, abszolút volumenben mérve jelentős) növekedést eredményezett. Mindezek alapján Kisida miniszterelnök márciusi bejelentésének 2027-ig történő megvalósítása az Indiában lévő japán működőtőke növekedésének mostani trendjének mindössze közepes mértékű gyorsulását feltételezi. Ennek bekövetkezte azonban elsősorban nem a legfelső szintű vezetők ambiciózus bejelentéseitől, hanem India további reformok bevezetésére való képességétől fog függeni.*

Kulcsszavak: *India, Japán India és Japán közötti diplomáciai kapcsolatok, befektetési kapcsolatok, Dél-Ázsia, külföldi közvetlen beruházás*

INTRODUCTION

India and Japan celebrated the 70th anniversary of their diplomatic relations in 2022, making this year a suitable time to reflect on the successes and frustrations of the relations between the two countries. The assassination of former Japanese Prime Minister Shinzo Abe in July also makes it apposite to review a bilateral relationship the considerable intensifying of which is a key element of Mr Abe's international legacy. As to the narrower subject of this reflection, incumbent Japanese Prime Minister Fumio Kishida's March 2022 announcement of Japan's plan to invest USD 42 billion (JPY 5 trillion) over the next five years offers the economic dimension of Indo-Japanese relations as a pertinent focus, more than doubling Japanese Foreign Direct Investment (FDI) stock in India.

Throughout the Cold War, Indo-Japanese relations were positive but low-key, helped by India's display of goodwill by rejecting the supposedly humiliating Treaty of San Francisco and signing a separate peace treaty with Japan in 1952, although this was limited by the markedly different geopolitical posture of the parties, India being a major non-aligned nation and Japan a key US ally. After the rock bottom of India's 1998 Pokhran-II nuclear tests, India–Japan relations improved rapidly throughout the 2000s and the 2010s, and more recently they have been described by officials as a Special Strategic and Global Partnership of natural partners, and by analysts and the media as an unlikely but effective relationship, Asia's fastest-growing relationship, or even as an indigenous Asia-Pacific axis. The economic relations between the two countries in particular have been called key to regional stability and characterised by major economic and demographic complementarities. It has, however, also often been noted that Indo-Japanese 'special relations' have mainly been driven by geopolitical considerations, and in the economic dimension they have struggled to live up to the high expectations, be it the early or the mid-2010s, or the beginning of the new decade.

Against this background, this policy brief is part one in a two-part series looking into the history, current role, and potential of Japanese FDI in India. The goal of the series is to assess how realistic PM Kishida's ambitious announcement is, and if indeed realistic, whether it would be a true game-changer or more of a continuation of current global and/or bilateral trends. To this end, this first part of the series looks at the history of Japanese investment in India, untangling the main drivers behind recent political momentum behind deepening economic relations, and it assesses whether actual outcomes in terms of Japanese FDI inflow and stock in India have lived up to the high rhetoric of recent years in terms of the potentials of Indo-Japanese relations. The second part of the series will look at Japanese investors' main concerns about India's business environment and to what degree India's post-2014 economic reforms have addressed these concerns.

Regarding its sources, the series relies heavily on the existing literature and secondary research data on the unique perspective of Japanese companies and business leaders on India. While mostly reliable, official Indian data on FDI has some limitations. First, the prominent place of low-tax, low-regulation jurisdictions like Mauritius, Singapore, or the Seychelles among India's top FDI sources likely indicates a significant amount of 'round-tripping' (i.e. Indian money being re-invested disguised as FDI), making the amount of *actual* FDI in India difficult to assess. Second, Indian authorities classify investment through securities as FDI if they result in more than 10% ownership in a company. As a result, large mergers, stock transfers, acquisitions, share buybacks, and multinationals retaking majority control in their subsidiaries have all caused statistically significant fluctuations in official FDI figures. For these reasons, Indian and World Bank figures will be used to analyse broader trends in inward FDI flow to India, but FDI from Japan will be measured using the Japanese statistics.

1950S–1990S: FROM THE LICENCE RAJ TO LIBERALISATION

The exact relationship between FDI and GDP growth is not without contestation in the literature. It is nevertheless mostly accepted that FDI is a key component of economic development for countries in need of foreign know-how and technology and where the need for investment is higher than domestic savings. India's contemporary economic history certainly suggests a significant relationship between FDI and economic growth.

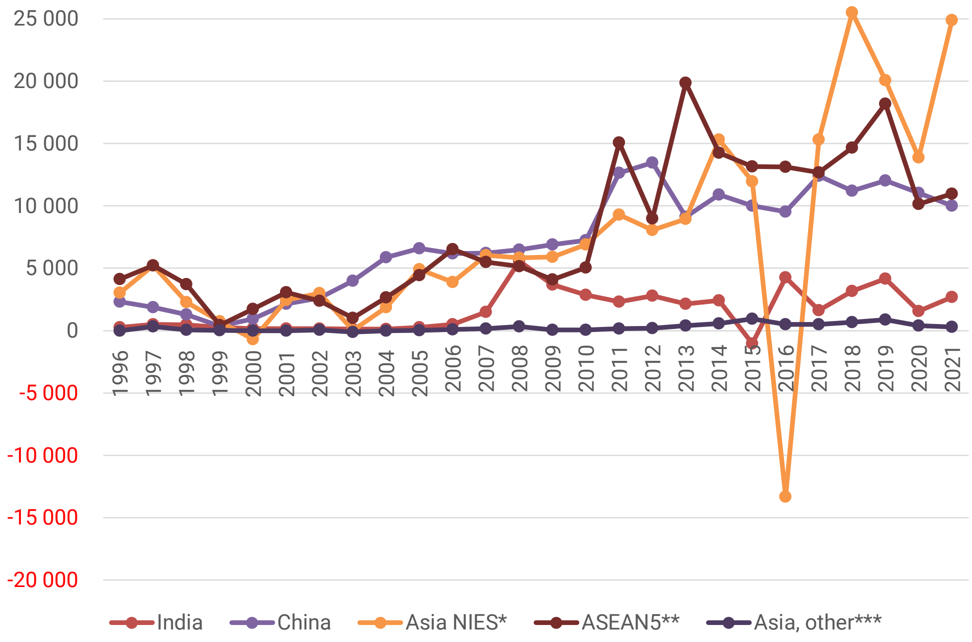
The history of FDI's place in the political economy of India has been marked by decades of suspicion, periods of hostility, and recently an era of unenthusiastic and uneven, but overall highly impactful liberalisation. Economic nationalism has been deeply rooted in India's political and economic thought since the days of the Independence Movement, and even today it remains a feature of the country's economic governance and the rhetoric of most major political parties. In the 1950s, a newly independent India aimed to develop its economy mostly by relying on domestic resources. Foreign (both Eastern and Western Bloc) resources were supposed to play a limited role, and even within this, foreign aid and loans were strongly preferred over direct investments. Large foreign and domestic investment projects in most sectors were subject to a rigid system of licence requirements, the so-called 'Licence Raj'.

Formal economic relations between Japan and India date back to the Meiji period, when Japan's industrialisation was in part fuelled by natural resources sourced from India. In 1915 India surpassed China as Japan's main export market, and even in the more erratic interwar period bilateral trade remained substantial. In contrast, post-WWII relations were mostly stagnant up to the 1990s. While

Japan was one of India's largest aid donors, India's protectionism, central planning, strict regulation of FDI, and state interventionism (sometimes mirroring Japan's similar policies) severely limited its attractiveness for Japanese firms as an investment destination. In the 1950s, 1960s, and 1970s, Japanese investment in India was limited and mostly aimed at securing raw materials. By the 1970s, this limited Japanese role in India showed increasing contrast with Japan's role as a major source of investment in East and Southeast Asian countries.

The late 1960s ushered in a period of further centralisation and restriction on FDI in India. In 1977-78, foreign companies were forced to divest 60% of the equity of their subsidiaries to local shareholders. During the 1980s, while the 'Asian Tigers' were transitioning into developed economies, India's business class was also calling for more openness in order to secure foreign capital, technologies, and markets. Some limitations were indeed lifted, mostly to attract foreign technologies to a set of government-designated national champions. The Japanese firms reacted to the targeted deregulation of the 1980s with the cautious introduction of more capital, technologies, and management know-how. Maruti Suzuki's conquest of India's automotive market is a major success story from this period. India, however, remained an insignificant destination for most Japanese companies (Table 1), accounting for less than 1% of Japanese outward FDI flow in Asia, at a time when Asia itself lost ground to North America and Europe.

Table 1
Japanese FDI inflow to Asian countries (USD million)



Source: [JETRO]

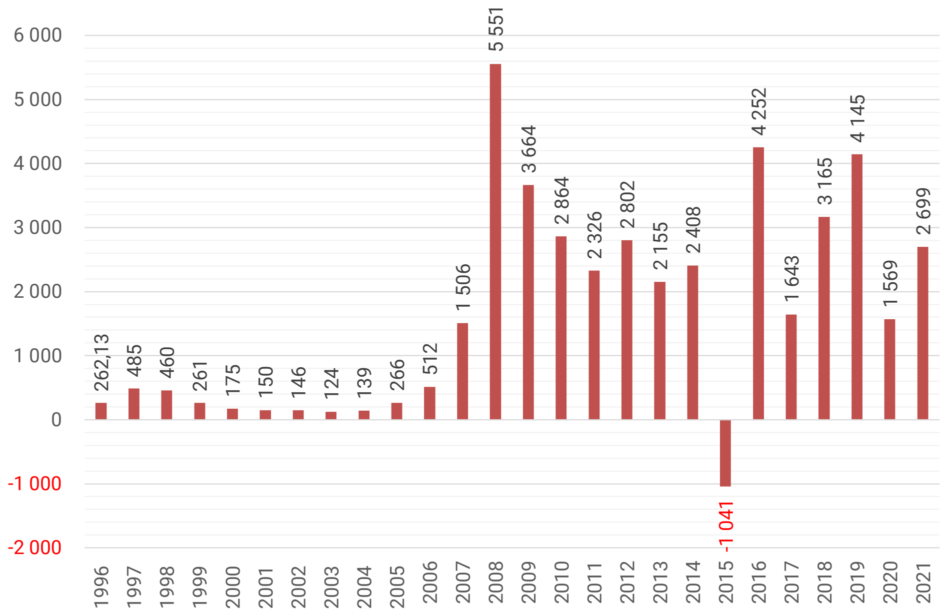
1990S–2014:
FROM LIBERALISATION TO DECELERATION

Before the 1990s, India's economy mostly grew at lower-to-mid one-digit annual rates, averaging around 3.5% per year from the 1950s to the 1980s. India has paid dearly for this sluggish growth in terms of lost opportunity for human development and poverty alleviation. It was, however, the 1990-91 balance of payment crisis that forced India to undertake major structural reforms in the end. The 1991 Foreign Exchange Management Act, introduced by then-Finance Minister (later PM) Dr Manmohan Singh, was a major milestone in opening India up for FDI and shifting the country towards a more open, technology-intensive, and export-oriented economic model. Tariffs and trade restrictions were cut, some licence requirements were lifted, and sectoral investment caps were raised. India's incremental opening continued into the late 1990s and the 2000s, albeit with varying enthusiasm and on an uneven, sector-by-sector basis. The net inward flow of FDI as a percentage of GDP rose from 0.1 to 1.1% between 1990 and 2001, and peaked at 3.6% in 2008, only to fluctuate between 1.3 and 2.4 ever since. In absolute terms, net inward FDI flow was mostly in the USD lower billions throughout the 1990s and early 2000s, but it skyrocketed from USD 7 billion to USD 43.4 billion between 2005 and 2008. As a result, in the post-1991 period, India's GDP grew every year (save for 2020), with upper one-digit growth rates in most years since 1994.

India's economic liberalisation in the 1990s coincided with further acceleration in China's growth, and with Japanese companies reassessing their role in the region. Aiming to have stronger commercial networks across Asia, China, and by the 1990s, India appeared as 'natural cornerstones' for Japanese investors in the region. From 1991 to 1998, Japan was the source of 7% of FDI inflow to India – an important source for investment-hungry India, but still a modest absolute figure for Japan. It was in this period that major Japanese investors such as Denso were able to establish majority ownerships in their Indian subsidiaries. However, India's 1998 Pokhran II nuclear test harmed diplomatic relations, and Japan even imposed economic sanctions on India, including the suspending of all official development assistance save for humanitarian and emergency aid. This, the loss of momentum in India's liberalisation reforms, and Japanese investors' less than stellar first-hand experience with India's infrastructural and regulatory shortcomings, played a role in the decrease of inward FDI flow from Japan in the early 2000s. India's share within Japan's outward FDI within Asia, however, actually increased in this period, and the fall in absolute volume fit a global downward trend, shaped by Japan's worsening macroeconomic conditions and the 1997 Asian financial crisis.

In absolute terms, Japanese FDI flow to India cooled to early-1990s levels in the early 2000s (Table 2). At the same time, economic pragmatism won over Japan's opposition to India's nuclear weapons programme, and ministerial and even top-level visits between the two countries became regular. This coincided with India's growing regional influence and the Indo-US rapprochement, culminating in the 2006 nuclear agreement.

Table 2
Japanese FDI inflow to India (USD million)

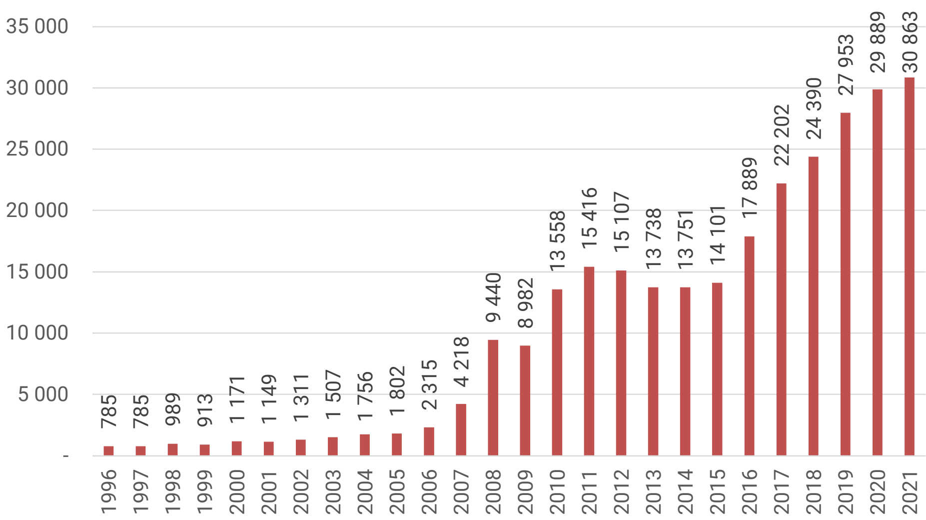


Source: *JETRO*

Following a global trend, the flow of Japanese FDI to India once again grew rapidly from the mid-2000s, rising from net USD 139 million to USD 5.5 billion between 2004 and 2008, with Japanese FDI stock also mostly growing until 2010-2011 (Table 3). In the meantime, India's share within Japanese investments to Asia rose from 1.3% to a remarkable 23.8% (Table 4), becoming the second-largest regional destination almost on par with China, and for the first time making it into Japan's top ten global investment destinations. India's growing share in the global flow of FDI between 2018–2020 has, however, not translated into similar growth in India's share in Japan's outward FDI flow (Table 5). In the second half of the 2000s, India consistently ranked as the second most promising investment destination in JBIC (Japan Bank for International Cooperation) surveys, its main attraction being future growth potential. On India's end, Japan was the third largest source of FDI inflow after the US and Mauritius[1] in 2004–2008, although it fell to the sixth place by 2009.

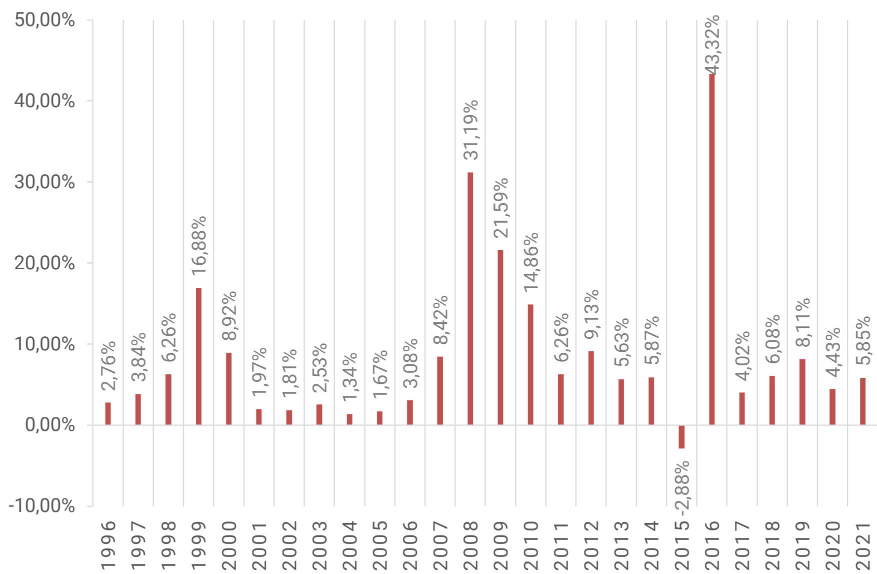
1 The small island nation of Mauritius is widely considered an intermittent stop of other countries' investors for tax-related reasons. This likely includes the 'round-tripping' investments of Indian residents.

Table 3
Japanese FDI stock in India (USD million)



Source: [*JETRO*]

Table 4
India's share of Japan's FDI flow to Asia

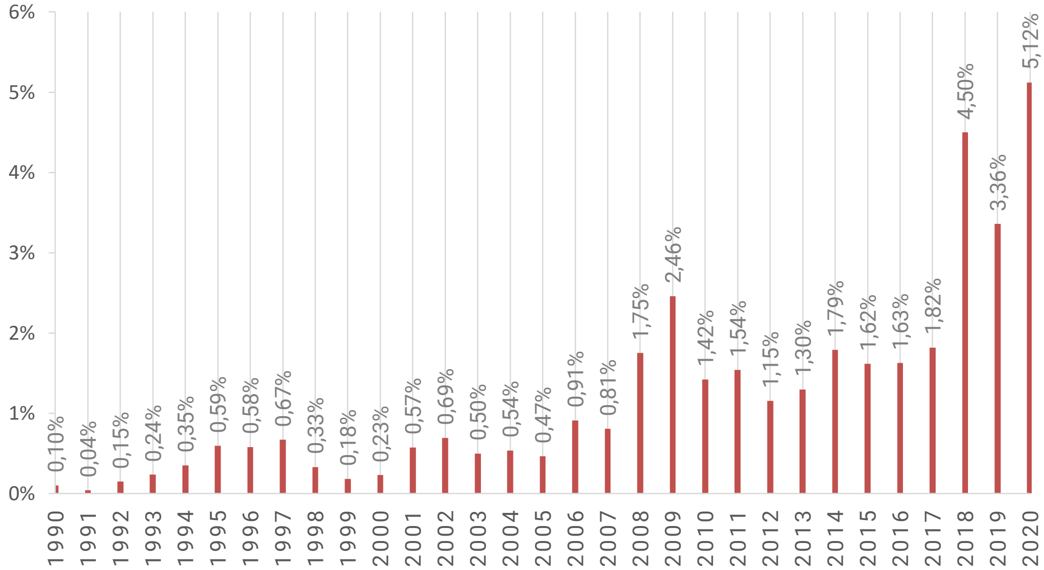


Source: [*JETRO*]

In 2006, Indo-Japanese bilateral relations were upgraded to a Global and Strategic Partnership. In 2007, designated as a Year of Friendship, India and Japan agreed to increase bilateral trade to USD 20 billion by 2010. Of this target, only USD

15.85 billion was realised. Partially in response to this underwhelming outcome, a Comprehensive Economic Partnership Agreement (CEPA) was signed in 2011, covering over 90% of bilateral trade and addressing a range of issues from rules of origin, intellectual property rights, customs, to investments. This time, boosting investments and reaching USD 25 billion in bilateral trade by 2014 was set as the new ambition, but realising the maximum potential of CEPA was hindered both by India's massive infrastructural deficit and by the non-tariff barriers employed by Japan. Pharmaceuticals were one area where India's robust generic drugs production could not meet its full export potential due to Japan's extremely strict quality standards.

Table 5
India's share within the global flow of FDI



Source: JETRO

Over the 2000s and 2010s, Japan became involved in several big-ticket infrastructure projects across India. These include the Delhi–Mumbai Industrial Corridor (DMIC), a 1,500 km transportation corridor with special manufacturing zones connected by high-speed freight railway (the latter built mostly with Japanese technology). USD 10 billion worth of Japanese investment in the DMIC was announced in 2007, and in 2012 the Japanese government gained a 26% stake in the DMIC Development Corporation.

In the aftermath of the 2008-2009 recession, India experienced an economic slowdown, with GDP growth remaining below 7% up to 2014. Inward FDI, while setting a new record in 2008 at USD 43.41 billion, plummeted, and it fluctuated between USD 24 billion and USD 36.5 billion for much of the early 2010s. This downward trend was in part due to unfavourable global conditions and in part due to the Indian economy's own structural weaknesses. The physical infrastructure remained in generally poor condition, international trade and investment remained strictly regulated, and the labour market and land acquisition regime – both crucial for international and domestic investors – remained extremely rigid. While in principle both major national parties agreed on continuing the liberalisation, allowing FDI into certain socio-economically sensitive sectors, such as agriculture and retail, remained a political taboo.

SINCE 2014:
ECONOMIC REFORMS UNDER THE NDA-II GOVERNMENT

Winning by a landslide in the 2014 general election, the second National Democratic Alliance (NDA-II) government, led by Prime Minister Narendra Modi's Hindu nationalist Bharatiya Janata Party (BJP), promised to reinvigorate the Indian economy through a set of pro-business, pro-investment, pro-growth reforms.

One flagship item was the Make in India Initiative (MII), aimed at turning India into a twenty-first century manufacturing hub, for which FDI would serve as a key source of capital and technological and organisational knowledge. In twenty-five focal sectors, including the automotive industry, electric machinery, biotechnology, and defence manufacturing, the cap on foreign ownership under the 'automatic route' (i.e. not requiring government approval) was increased significantly in the 2017 Consolidated FDI Policy. Stricter limits remain in place in a range of strategic sectors however, including television broadcasting, the space industry, oil refining, or titanium mining. The 2020 Consolidated FDI Policy further cut limitations on FDI in multiple sectors. In 2020, USD 27 billion was earmarked in the union budget for Production Linked Incentives (PLI), aiming to boost India's manufacturing output to USD 520 billion and creating 'national manufacturing champions' and 6 million new jobs in 14 key sectors, from automobiles to renewable energy to white goods, by 2025 via 4-6% cash-backs to new investors. Corporate tax for new manufacturing units was cut to 17%, and then, following the COVID-19 pandemic, to 15%.

To increase the general ease of doing business, licence requirements were relaxed, clearer timelines were set, administrative burdens were decreased, the obtaining of construction permits was streamlined, and options for electronic paperwork were expanded. A number of special economic zones, investment regions, and industrial corridors were designated to improve infrastructure and promote investment. The landmark 2017 Goods and Services Tax (GST) replaced India's highly fragmented Value Added Tax (VAT) system with a single national framework. A 2015 amendment bill for India's infamously cumbersome land acquisition regime, however, failed to clear parliament, despite a comfortable BJP majority in the lower house. A new insolvency regime was introduced in 2016, making it easier for creditors to seize companies in default of their loans. In 2017 the government repealed the 'R&D cess', a 5% extra tax levied on the importing of foreign technology.[2]

The results of the Modi Ministry's industrial policies are usually considered mixed or somewhat successful. India's 2020 Ease of Doing Business, previously peaking at 116th place out of 190 jurisdictions and then falling to 142nd place by 2015, improved to 63rd place by 2020, becoming one of the fastest-improving national business environments. Areas of improvement included the ease of starting a business, dealing with construction permits, trading across borders, and resolving insolvency.[3] In 2015 and 2016, India surpassed China as the fastest-growing major economy. From 2017 on, India's economy once again slowed down, growing only by 3.7% in 2019, right before a -6.6% dive in the COVID-19 pandemic year of 2020, and an 8.9% bounce-back in 2021. The inflow of FDI followed a similar trend, in absolute terms surpassing the previous 2008 record in 2015 (USD 44 billion), then mostly stagnating until 2018, and soaring again in 2019 and 2020 (USD 50.61 and USD 64.36 billion, respectively). Relative to the GDP, however, inward FDI has never reached the 2008 record of 3.6%. The share of manufacturing within India's GDP, despite the government's clearly stated goal, has actually declined since 2011, while the relative weight of trade, finance, transportation, and the IT sector has grown. Services are still the No. 1 sector receiving FDI, followed by the automotive industry, computer software and hardware, telecom, construction, trading, drugs and pharmaceuticals, chemicals, and hotels and tourism.

POLITICAL MOMENTUM IN THE MODI–ABE YEARS

Another BJP campaign promise back in 2014 was to put India on the map as a major power, which should include the establishing of a network of key partnerships. While this should not be understood as a fundamental break with India's traditional rejection of formal alliances, it does signal more willingness to closely co-operate with other powers that share India's strategic concerns and interests. Fuelled mainly by a shared concern with China's increasing power and assertiveness, chief among these rapidly strengthening relationships are those with the US and its Asia-Pacific allies, especially Australia and Japan.

2 The cess was introduced in 1986 to promote the commercial application of domestically developed technologies, but it clearly contradicted the government's ambition of attracting technology-intensive foreign investment into India. Its repeal was welcome news for Japanese manufacturing companies.

3 While the World Bank's Ease of Doing Business publications have been suspended amidst allegations of improperly influencing data in favour of certain autocratic governments, no irregularities were found in the data about India.

For several reasons Japan plays an especially prominent role, both narrative and practical, in the Modi Ministry's vision of India's revived regional and global engagement. Unsurprisingly, the notion of Japan and India being fellow Asian democracies with centuries-long history of cultural exchange (such as the prominence of Buddhism in Japan) features heavily in diplomatic communiqués. That being said, although it is stated less openly, at least similarly consequential is Japan's status as a key part of the US-led balancing coalition against China and as a key source of investment and technology in India. From this angle, strengthening Indo-Japanese relations can be partially understood as a proxy for formal Indo-US co-operation, free of the historical baggage of India's suspicion of Anglo-Saxon naval powers and these powers lecturing India about open markets and structural reforms. Close relations with Japan are also often interpreted within the framework of India's post-1990s Look East policy and its post-2014 Act East upgrade, aimed at increasing engagement with countries in India's Southeast Asian and Asia-Pacific neighbourhood.

From Japan's perspective, India also appears both as a valuable addition to the informal balancing coalition against China and as a rapidly growing market and potentially lucrative investment destination. India has embraced Japan's vision of a Free and Open Indo-Pacific in multiple bilateral and multilateral communiqués. Beside these systemic factors, the camaraderie between PMs Modi and Shinzo Abe, dating back to Modi's tenure as Chief Minister of the Indian state of Gujarat, is arguably a case study in favour of individual leadership and personal relationships having an actual impact on international relations.

Enhancing security co-operation was also on the agenda during the Modi–Abe years. India and Japan have deepened their multilateral engagement with the US and Australia through the Quadrilateral Security Dialogue (drawing China's ire), and held talks about a possible military logistics sharing agreement. Still, with both countries' ability to participate in multilateral military frameworks being limited (albeit for different reasons and to different degrees), economic co-operation has usually dominated the agenda of bilateral relations.

In August 2014, Narendra Modi made his fourth foreign trip as Prime Minister to Japan. In the following eight years he made four more visits to Japan (including bilateral and multilateral meetings) and welcomed Japan's top leaders in India three times. In 2014, Japan made a pledge of USD 35 billion investment into India's public and private sector over the next five years, with the added ambition of doubling the number of Japanese companies operating in India. An India–Japan Investment Promotion Partnership was also announced. As part of this initiative, 11 Japan Industrial Townships (JIT) were created in eight states of India from 2015, offering sites for new manufacturing units with substantial tax concessions on electricity duty, land acquisition, and the acquirement of licenses. As of 2021, 144 Japanese companies operate in these JITs. These and other Japanese investors are supported by institutions such as Japan Plus, a one-stop problem-solving point within India's Ministry of Commerce and Industry, and JETRO's (Japan External Trade Organization) five integrated business support centres across India.

In 2015, Japan and India signed a civilian nuclear energy agreement and an agreement about providing Japanese financing and technology for a 508 km long high-speed rail project between Mumbai and Ahmedabad. The foundation stone of this latter project was jointly laid by the two Prime Ministers in 2017. In 2016, the Japan International Cooperation Agency (JICA) extended a USD 925.5 million loan for India's Western Dedicated Freight Corridor project, which involves creating a congestion-free alternative route between the Delhi agglomerate and Mumbai's Jawaharlal Nehru Port. JICA financing has also been secured for infrastructural development projects in India's remote, historically volatile, and underdeveloped North-Eastern region. Japan has remained India's largest source of Official Development Assistance (ODA), extending around USD 3.1 billion commitment and USD 2 billion disbursement in 2018-2019 (accounting for about a third of total ODA received by India).

Still back in 2017, an India–Japan Investment Promotion Roadmap was signed between India's Department of Industrial Policy and Promotion (DIPP) and Japan's Ministry of Economy, Trade and Industry (METI). In 2018, PMs Modi and Abe announced the launching of an India–Japan Digital Partnership to increase co-operation in science, technology, and the info-communication sector, and the creation of an India–Japan Startup Hub to facilitate engagement between start-ups, investors, and incubators. By 2021, over 100 Japanese investors had funded over 240 Indian start-ups, investing USD 9.2 billion and generating over 217,000 jobs.

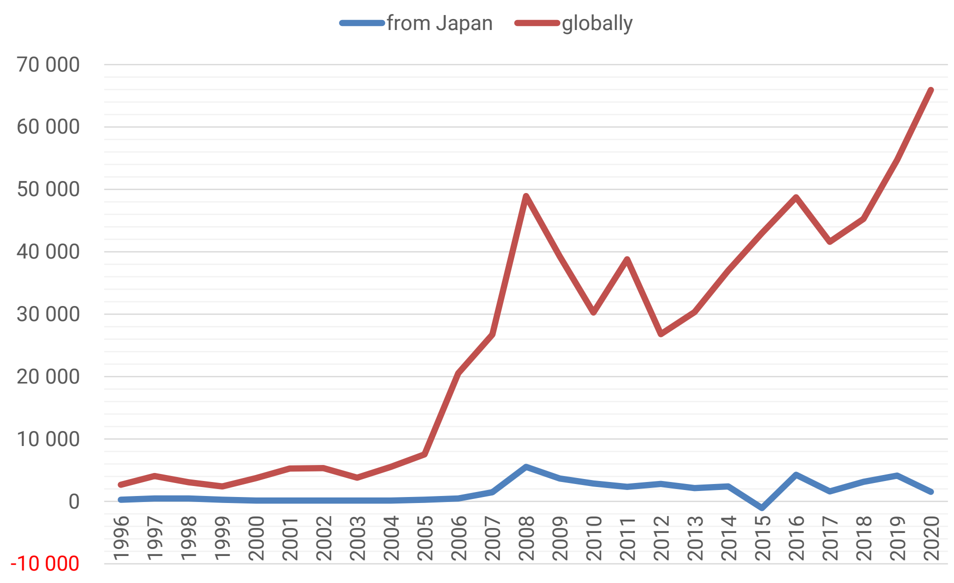
In December 2020, Prime Minister Shinzo Abe was succeeded by Yoshihide Suga, who in turn was followed by Fumio Kishida in October 2021. In March 2022, PM Kishida travelled to India to resume the two countries' tradition of annual summits, on hold since 2018 due to the 2019 protests in Assam (that year's scheduled location) and the 2020-21 COVID-19 pandemic. During the meeting, the parties expressed satisfaction that the 2014 investment target of JPY 3.5 trillion had been achieved, and Japan announced a plan to invest further JPY 5 trillion (USD 42 billion) in India by 2027 (a 136% increase from the 2021 basis). An India–Japan Initiative for Sustainable Development of the North-Eastern Region of India was also launched, and in the wake of the COVID-19 pandemic the two leaders promised to further promote co-operation under the India–Japan Digital Partnership. The ongoing invasion of Ukraine did cast some shadow over the negotiations however, with subtle but clear tension between Japan's firm stance against and India's avoidance of calling out Russia's war of aggression.

CONCLUSION

Often portrayed as a new global investment hub, and other times as a perennial disappointment, India deserves a less passionate, more level-headed investigation into its advantages as an investment destination and challenges to live up to its full potential. In line with this, the high-profile 'diplomatic boom' between India and Japan in recent years warrants a realistic assessment of the achievements, potentials, and hinderances of this relationship. Such an analysis reveals a complicated picture of huge potential but also major obstacles that need to be dealt with.

Since World War II, economic relations between India and Japan mostly followed the general developmental trends of the two counties. India has historically been suspicious of foreign investment and subjected it to political and national security considerations. From this perspective, Japan is a near ideal partner: it shares India's concerns about an emerging and increasingly assertive China, while it is mostly free from the historical baggage that the US as a free trade promoting Anglo-Saxon superpower carries from India's vantage point. Yet, while the absolute value of Japanese FDI to India has risen considerably during the 2000s and the second half of the 2010s, this mostly followed a global trend rather than the special Indo-Japanese diplomatic relationship. In relative terms, Japan's importance as an FDI source for India peaked in 2008 and has mostly stagnated since the early 2010s (Table 6).

Table 6
FDI inflow to India from Japan vs globally (USD million)



Source: *JETRO*

Since 2014, Japanese FDI stock in India has grown continuously, FDI inflow followed a more moderate but still growing trend, and India's relative share within Japan's FDI to Asia increased up until the beginning of the COVID-19 pandemic in 2020. Yet the changes in these specific indicators mostly followed India's growing overall, not Japan-specific, ability to attract FDI, and they are arguably underwhelming in light of the strong personal nexus between Indian Prime Minister Narendra Modi and the late Japanese Prime Minister Shinzo Abe. More than anything, Japan appears to be an important but compared to its global economic weight not truly special economic partner for India.

To be sure, Japan's share of inward FDI flow to India or India's weight within Japan's outward FDI flow is not the sole measure of the successful partnership between the two countries. Warm diplomatic relations between India and Japan may not have translated into a similarly special place for Japanese companies in the Indian economy. However, the last eight years have brought about a major rethinking of both countries' limits of international security engagements, and a nascent but growing partnership between the two in both bilateral and multilateral formats (such as the Quadrilateral Security Dialogue). The Indo-Japanese Global and Strategic Partnership may not be a game changer in India's economic development. It may, however, very well shape Asia-Pacific geopolitics in fundamental ways.