

▶ Executive Summary

India and the World

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Key Points

- In step with economic growth, India has been shifting to an omnidirectional diplomacy that puts emphasis on the practical benefits resulting from trade, investment, and the like, without becoming caught up in ideologies or conflicts.
- Against the backdrop of a high level of growth, India has also come to draw attention at the WTO, the G20 Summit, and the like. In the WTO, India is actively participating in discussions in a manner representing the developing countries, but is taking the position of an observer at the G20 Summit, the East Asia Summit, and the like.
- In the future, there are high hopes for India—for which a high level of growth is predicted—actively and constructively contributing to the rebuilding and administration of international economic institutions such as the WTO and the IMF.
- Since 1991, India has been increasing the level of activity of external transactions in both trade and investment, and has been expanding the scale of the economy. With omnidirectional diplomacy as a given, India has upheld the “Look East” policy for EPAs, and in recent years has been putting effort into improving relations with neighboring South Asian countries.
- The community of overseas Indians that spreads across the world not only brings about remittances and investment, but also forms a valuable network in India’s economic expansion within globalization.

Timeline of post-independence Indian diplomatic history

1947	Indian Independence, Indo–Pakistani War of 1947
1954	Nehru and Zhou Enlai Meet, “Five Principles of Peaceful Co-Existence”
1955	Asian–African (AA) Conference in Bandung, Indonesia
1962	Armed conflict between India and China
1965	Indo–Pakistani War of 1965
1971	Indo–Pakistani War of 1971, Indo–Soviet Treaty of Friendship and Cooperation
1974	First nuclear test
1990	US suspends aid to Pakistan
1991	Minister of Finance Manmohan Singh (current Prime Minister) starts economic reforms
1998	India and Pakistan conduct nuclear tests, economic sanctions imposed by the West and others
1999	India and Pakistan clash in the region of Kashmir (Kargil Conflict)
2000	President Clinton visits India (the first US president to visit in 22 years)
2001	9/11, Lifting of economic sanctions on India by the US and others
2003	Prime Minister Vajpayee visits China (the first visit by an Indian Prime Minister in 10 years)
2004	India and Pakistan launch comprehensive dialogue
2005	India and Pakistan participate as observers in the Shanghai Cooperation Organization
2007	US–India Civil Nuclear Agreement is concluded
2008	Mumbai terrorist attacks





Chapter 2

Indo–Japanese Economic Relations —Japanese Companies Seek to Catch Up

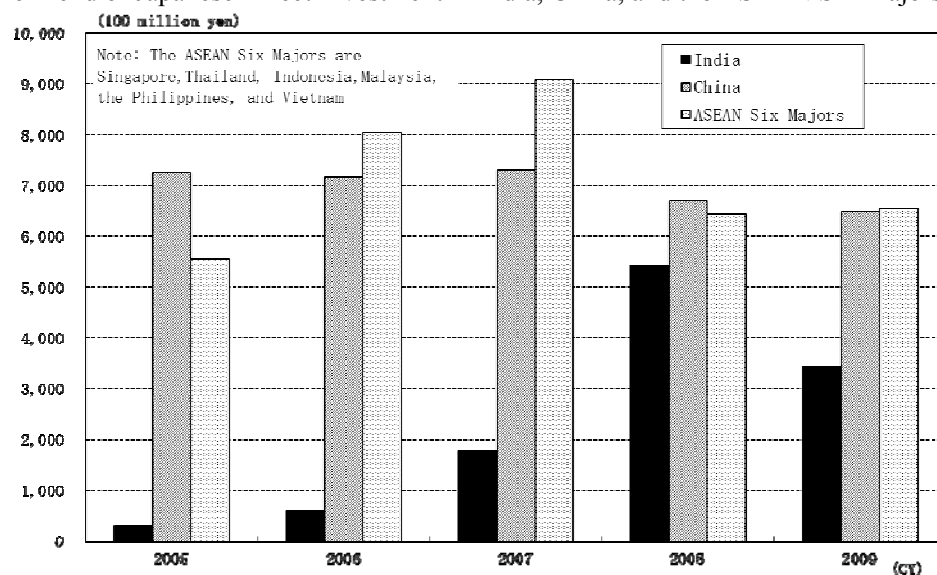
Masanori Kondo

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Key Points

- The Japan–India Economic Partnership Agreement (EPA) came into force, and Indo–Japanese economic relations are exhibiting a new surge.
- Direct investment in particular has increased in recent years, and to Japanese corporations, India has developed into one of the three largest investment destinations alongside China and the ASEAN six majors.
- Business by Japanese corporations in India is diversifying both in terms of investment field and region.
- To Japanese corporations, which had a late start in India, mergers and acquisitions (M&A) have been effective for catching up, but it is desired that proper attention be paid to the corporate governance of the other company.
- The damage incurred by Japanese corporations in India as a result of the Great Eastern Japan Earthquake and the flooding in Thailand was small, India’s importance as a global risk dispersion base is attention-worthy.

The Trend of Japanese Direct Investment in India, China, and the ASEAN Six Majors



▶ Chapter 3

Sino-Indian Relations

—From Hostility to Mutual Cooperation and Complementation

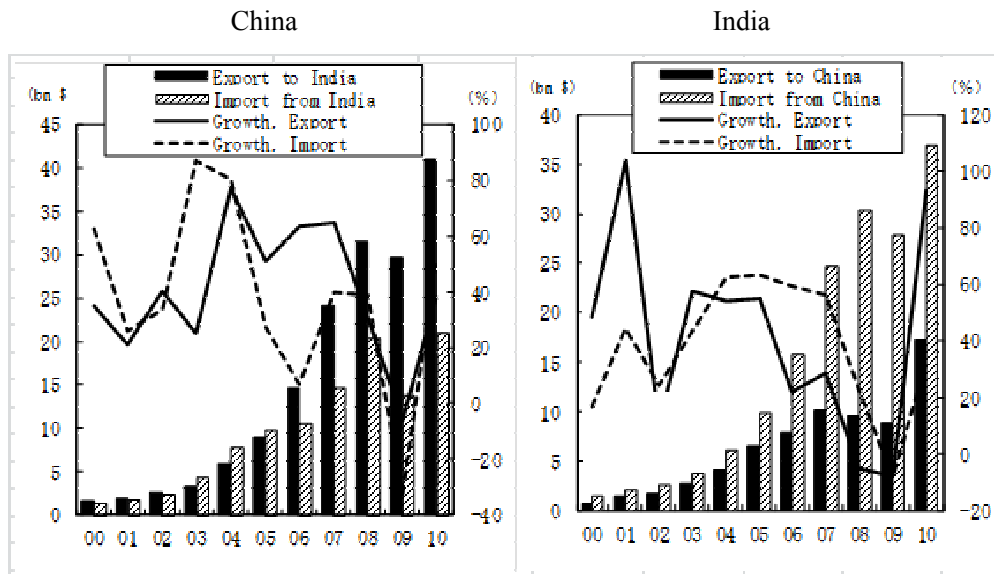
Yan Zhu

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Key Points

- In the political and diplomatic relations between India and China tensions began to ease starting in the 1990s. In recent years, the relationship of a “strategic partnership” has been formed, and the countries have come to cooperate in multilateral frameworks as well. However, pending issues remain, such as the undemarcated borderline, the Tibetan government in exile, and border-straddling water resources.
- Alongside improved relations, the economic relationship between the two countries has been rapidly developing. Behind this is the complementary competitive advantage between the two countries. Sino–Indian trade is developing extremely quickly, China is the largest trade partner for India, and mutual direct investment is expanding. Also, orders for Chinese firms to engage in Indian infrastructure development projects are also rising rapidly. However, trade imbalances, trade friction, and the like still remain as issues.
- The Sino–Indian economic relationship has a great potential for further development. Promising fields include infrastructure development, IT services and software, the steel industry, and the pharmaceuticals industry. The development of Sino–Indian economic relations will likely actively influence Japanese corporations as well.

The expansion of Exports-Imports between China and India



Note: The right side is India's trade with China. China's numbers are calendar year, while India's are fiscal year accounting.

Source: Created by the author based on Chinese Customs statistics, JETRO statistics (originally from India's DGCI&S) and the like.

▶ Chapter 4

US–Indian Relations

—A Multifaced Partnership Under Construction

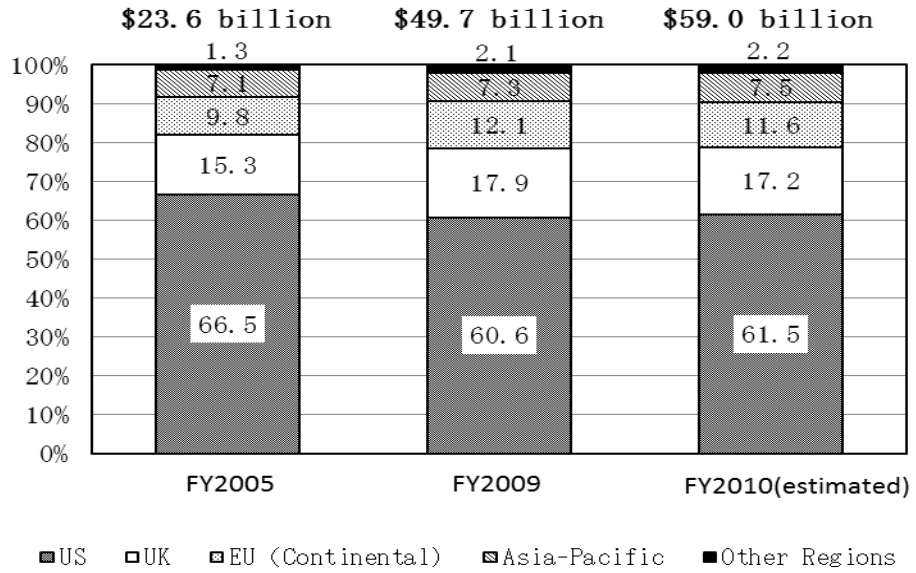
Makoto Kojima

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Key Points

- While calling for non-aligned diplomacy under the Cold War system, India grew closer to the USSR, which made US–Indian relations awkward. However, since the 1990s, India and the US came to build a robust strategic and economic partnership.
- Amidst a rapid expansion of the economic relationship between India and East Asia, the relative importance of trade with the US is decreasing. Nevertheless, if trade in services is included, the US remains the largest partner. Direct investment is also developing actively and bi-directionally between the two countries.
- The rise of India’s IT industry is closely related to offshoring by US corporations to India. Offshoring to India has been leading to increased competitiveness by US corporations, but meanwhile is full of problems leading to erosion of the intellectual foundation and the loss of jobs in the US.
- Many Indian-Americans are achieving success as professionals, not only in the IT industry, but also in academia, medicine, the corporate world, and the like. They are increasing their presence in society, and are also deploying active lobbying activities.

Breakdown of Indian IT-BPO Export Destinations (%)



Source: NASSCOM, *The IT-BPO Sector in India: Strategic Review 2011*.

▶ Chapter 5

Relations Between India and Europe, Russia, the Middle East, and Africa —From Traditional Friendly Countries to the Frontiers

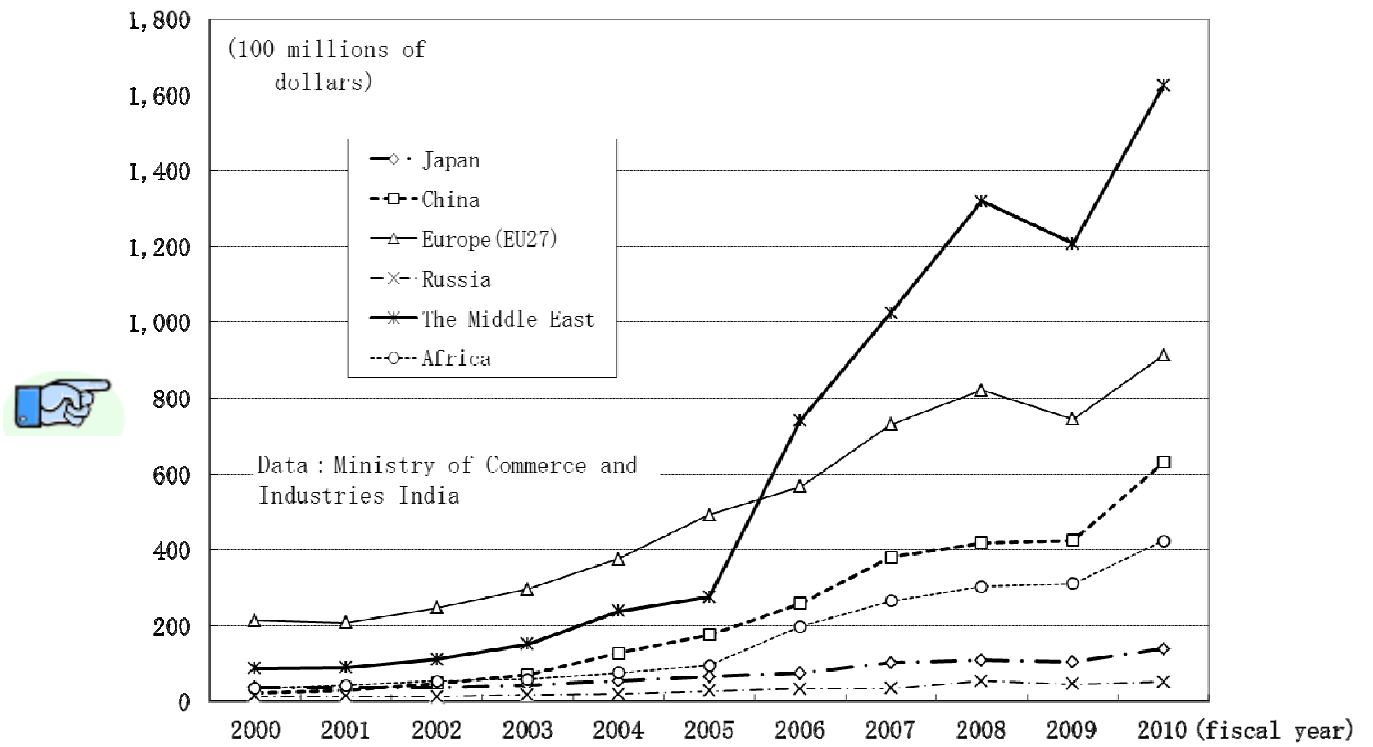
Go Yamada

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Key Points

- The European countries, which have historically had a deep relationship with India, are a balanced trade partner, and are maintaining relations as a favorable economic partner. Through the India-EU EPA, which is expected to be resolved soon, cooperation is expected to become yet stronger.
- An eclectic cooperative relationship is developing with traditional friend Russia from the military and science/technology to energy. In recent years, mutual investment has started to be implemented.
- In the economic relationship with the Middle East, which was mainly notable for migrant work and oil up to now, mutual corporate penetration and investment have been increasing in recent years, and there are hopes for further new development in the future.
- India is in the midst of fierce competition with China over acquisition of resources in Africa, which is a frontier to India. Indian corporations has been furthering market opening using their own strategy taking advantage of the network of overseas Indians and soft-power.

Trade Between India and the Major Countries



▶ Chapter 6

Relations with Northeast Asia (South Korea and Taiwan)

—South Korean Corporations Take the Lead, Taiwanese Corporations also Start Active Deployment

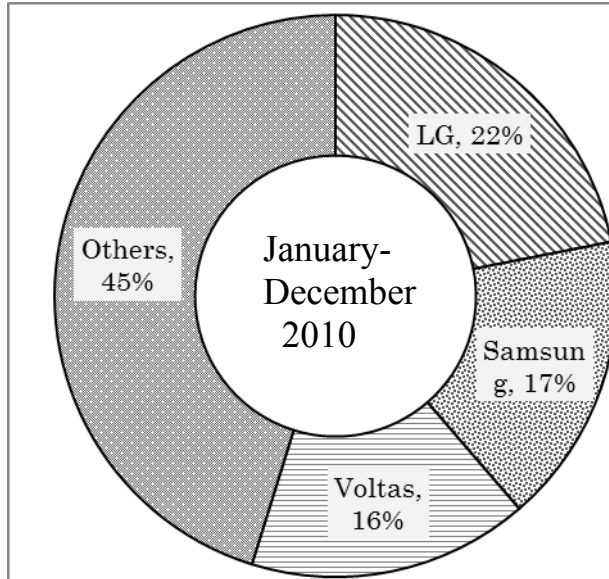
Shigesaburo Kabe

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Key Points

- South Korean and Taiwanese political and economic relations with India changed significantly in the 1990s, and are expanding steadily. South Korea moved particularly rapidly, and the India–Korea Comprehensive Economic Partnership Agreement (CEPA) came into effect in 2010.
- The bidirectional flow of people is active, with that between South Korea and India being around 70,000 people each way, and with Taiwan being around 20,000 people each way. In terms of trade as well, Korean–Indian trade exceeds Japanese–Indian trade, and Taiwan has reached the level of half of Japan–India trade.
- The movements of South Korean and Taiwanese firms are also dynamic, and electrical/electronics, steel, and the like are driving investment in India. In the consumer electronics market, Korean corporations have presence, as they look back at the latecomers from Japan.
- Korean corporations also succeeded in India by adhering to a high-risk, high-return strategy of putting importance on emerging markets. Thus, their future strategy is being watched, as major overseas companies from Japan, Taiwan, and the like are seriously aiming for Indian business.

Air conditioner unit market share in India



Source: TV Veopar Journal

▶ Chapter 7

India–ASEAN Relations

—The Formation of a Production Network

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Key Points

- In India's Look East policy, the Association of Southeast Asian Nations (ASEAN) is a core presence. India is pursuing closer relations with ASEAN through active summit diplomacy and the signing of an FTA. To India, ASEAN is the third most important trade partner in terms of exports, and the second most important in terms of imports. In terms of investment and the movement of people, the flow from India to ASEAN is expanding.
- India's deficit is rising in India–ASEAN trade. The main factor behind this is an expanding excess of machine imports, with parts/components being imported in large quantities. India's importance to ASEAN as a parts export destination is growing, and it can be seen that India is being incorporated into the East Asian production network.
- There are more and more examples among Japanese corporations of taking advantage of ASEAN's production base to export to India. While taking into consideration the progress of FTAs, Japanese firms also have the need to strengthen business in India from ASEAN's abundant production bases. In order to propel the wider-area operations of Japanese companies, the Japanese government should strengthen political efforts towards an expansive Asian FTA.

India's imports of machinery from ASEAN, top 10 items (2010)

Rank	SITC	Item Name	Import Value	Share
1	776	TRANSISTORS, VALVES, ETC	2,018	19.5%
2	759	PARTS, FOR OFFICE MACHINS	1,655	16.0%
3	752	AUTOMATC. DATA PROC. EQUIP	986	9.5%
4	764	TELECOMM. EQUIP. PARTS NES	612	5.9%
5	778	ELECTRIC. MACH. APPART. NES	463	4.5%
6	784	PARTS, TRACTORS, MOTOR VEH	370	3.6%
7	713	INTRNL COMBUS PSTN ENGIN	364	3.5%
8	761	TELEVISION RECEIVERS ETC	347	3.4%
9	723	CIVIL ENGINEERING EQUIPT	328	3.2%
10	741	HEATNG, COOLNG EQUIP, PART	320	3.1%
11	772	ELECT POWER MACHNY. PARTS	266	2.6%
		Total Machinery Imports	10,345	100.0%



Note: Import values are in millions of dollars. Highlighted items correspond to parts/components.

Source: Created from UN trade statistics

▶ Chapter 8

Trade & Investment Relations between India and the Countries of South Asia

—EPAs are Effective in Facilitating

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Key Points

- As the Indian economy, which is marking steady economic growth, captures the world's attention, interest in neighboring Bangladesh, Pakistan and Sri Lanka is growing.
- In recent years, there has been an upward trend in trade and investment relations between India and other South Asian countries, and there is ample room for expansion.
- Expansion in trade and direct investment is important for maintaining steady growth and achieving economic prosperity, as India and other South Asian countries are still at a low developmental stage.
- Barriers preventing the expansion of trade and investment include not only institutional barriers such as tariffs and capitalization limitations, but also those barriers that are targets for facilitation of inefficient customs clearance, investment screening, and the like. FTAs on a regional level are effective as a response to these barriers.

South Asian FTAs

	Proposed	Framework Agreement Signed, Under Negotiation	Under Negotiation	Signed	In Effect	Total
India	8	4	8	0	13	33
Bangladesh	0	2	1	1	2	6
Pakistan	10	5	3	2	6	26
Sri Lanka	2	1	0	1	4	8

Source: Asian Development Bank, Asian Regional Integration Center

