

CHAPTER III JAPAN'S OFFICIAL DEVELOPMENT ASSISTANCE TOWARD INDIA

The relationship between India and Japan has been established since a long ago which is creating a long history between them. Over the years, Japan and India have created upon the values and have established a partnership based on their principle. Nowadays, India is the largest democratic country in Asia. Meanwhile, Japan is the most prosperous one.

A. Japan and South Asia Relationship

Japan knowledge about South Asia was still low. This happened due to its geographic condition. Japan regarded South Asia as a distant region. According to them, the South Asian countries did not have a high profile in the world affairs (Jain, 1996). For Japan, Asia was only some countries near them such as Korea peninsula, Peoples Republic of China (PRC), and Southeast Asian countries.

Japan's relation with South Asia got several changes. First, Japan becomes the country which having a strong economy power. Next, Japan's global political activity has grown but it is considered politically less active in international community. Last, Japan is a leading regional power. During the Cold War, Japan's Policy towards the South Asia was largely limited to developing countries (Jain, 2017).

Not only Japan that had changed, the South Asia got several change. India and Sri Lanka established institutions for democracy; Nepal, Bangladesh, and Pakistan embraced democratic regimes in place of military rule and monarchy (Syed, 2003). In the 1990s all South Asian nations registered an economic growth.

According to the Asian Development Bank, the economic region of South Asia consists of Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Altogether, those countries received around \$1.5 billion in the 1998 (Jain, 2000).

1.1 Aid

Japan's ODA in 1995 is \$14.7 billion, which makes Japan as the world's number one foreign aid donor for 5 years (Jain, 2000). South Asian countries were the first to receive Japan's yen loans in the 1950s. These countries received large amount of Japanese aid. Japan's total bilateral aid to South Asia in 1989-1993 was about half of the value of the aid to ASEAN and it was higher than to China.

1.2 Trade

Japan's international trade was dominated by exports, due to its own industrial restricting and the external pressure. South Asia generally exported raw materials and primary products, such as iron ore, cotton, sea food, and some low quantity of finished goods (Jain, 2017). South Asia's imports mostly are heavy machinery and equipment which are difficult to be created. Here, they did a trade where raw materials were exported to Japan while South Asia imported heavy machinery and equipment.

1.3 Investment

Although Japan got a serious recession in the 1990s, the Japanese companies increased their investment overseas, especially in East and Southeast Asia region. To do so, Japan's increased their interest in South Asia gradually (Jain, 2000).

1.4 Political, Diplomatic, and Strategic Ties

In the mid-1980s, the South Asia Association for Regional Cooperation (SAARC) was created but became inefficient. Japanese government created the South Asian Forum in 1991 to promote dialogue and encouraged consultations on a regular basis (Jain, 2000). South Asian and Japanese government and business leaders who wanted to increase beneficial relationships are gathered here. The most prominent issue concerned by Japan is nuclear test. The most issue is the Japan's relation with India and Pakistan.

1.5 Cultural Relations

The Cultural Relations between Japan and South Asia can be considered as weak. However, a lot of funds have been spent for their sister city relationship by the Japanese local government with the overseas states and some local councils (Jain, 2000).

B. Japan-India Relationship

The relationship between Japan and India had been established since the 6th century when Japan introduced Buddhism from India. In the Buddhist influence on the two societies, *Shintoism*, is similar to the *Hinduism*. Since various phases of History, Japan and India have never been adversaries (MOFA, 2017). However, an exchange between them happened in the Meiji era (1868-1912) when Japan started to do the modernization (Affair, 2012). Mostly, in this relation Japan bought cotton from India. During the World War II, Japan was India's enemy. This happened when India was still under the rule of British. This

involvement showed that India could be deemed that they joined the war in the Allies sides.

After the World War II ended, India didn't attend the San Francisco Conference. They decided to make a separate peace treaty with Japan instead. The Japan and India Peace treaty that held in 1952, became the mark of the moment of bilateral relations and setting for the future relation. After the establishment of diplomatic relations, the two countries have enjoyed their relations. In the post World War II period, India's iron ore helped Japan's recovery from the devastation. Japanese Prime Minister Nobusuke Kishi's visit to India in 1957, Japan started providing yen loans to India in 1958, as the first yen loan aid extended by Japanese government.

C. Japan's ODA toward India

The Japan's ODA can be known as the main tool for Japan's foreign policy in the post war era. The policy began from the establishment of Yoshida Doctrine when Japan was in under US Umbrella. Japan signed the treaty for reparation with many countries in order to repair the relation with another country. In 1958, Japan extended yen loans (ODA loan) to India, the first of its kind marking a starting point of Japan's economic cooperation in earnest.

1. Japan's ODA to India

India became the first recipient of the yen loan aid extended by the Japanese government and Japan. Japan began offering yen loans to India as the first yen loan aid provided by Japanese government. Japan's first yen loan to India was done during Prime Minister Jawaharlal Nehru's visit to Japan in October

1957 (Jain, 2017). The request for yen loans, made by the Indian side during Prime Minister Nobusuke Kishi's visit to India earlier that year, was to help India implement the industrialization policy in its Second Five-Year plan (1956–61).

Prime Minister Kishi's visit to India in May 1957 as part of his six-nation trip to 'Southeast Asia' (Japan added India as part of Southeast Asia), and decided to help Second Five-year plan to achieve the Second Five-year plan India's economic objectives (Jain, 2017). At the time of Nehru's visit, Japan announced that they would provide yen credit to India for the second five-year plan. On 4 February 1958, the Japanese government agreed to provide a total loan of 1,800 million yen for a three-year period which starts in 1 April 1958 with 500 million yen, then 600 million in 1959, and last 700 million yen in 1960 (Jain, 2017).

1950s is the mark of India's Industrialization for fulfilling the demand of the development. At first, India received a small amount of aid from the foreign country and International Agency such as World Bank and IMF. From the economic history, Japan's loan was mostly used for foreign aid. The amount of Japan's ODA to India has reached US\$ 7395.87 million (or Rs. 3.233,79 billion) in the year of 2000 (Jain, 2017). Japan also helped the India in infrastructure sector such as Railway, Roads, Bridges, Ports, Power, etc. For example in Railway sector Japan help the Indian Railways Development Projects by giving 2.68 billion yen loan with 2.75% interest and 30 years payment period (JICA, 2006).

These loans, given with a low interest rate on a long-term basis, used for shipbuilding, power generating, mining, telecommunications, and steel production.

Here, India becomes the good opportunity for Japan's yen loans program and also increases Japan's closeness and economic partnership with India. Since 1986, Japan has become India's largest aid donor, and remains so. (MOFA, 2017) In the August of 1958, the World Bank managed and Aid-to-India Consortium consisting of the World Bank Group and thirteen countries (MOFA, 2017).

The Aid-to-India was made to prioritize India's foreign assistance. It was also made for aid based on their plans for development. Japan has extended financial assistance for India through the Export-Import Bank of Japan (J-EXIM). In 1975 until 1976, the aid was channelized through the Overseas Economic Cooperation Fund (OECF) of Japan (Saxena & Kapoor, 2013). Then, in the 1st October 1999, J-EXIM and OECF merged and created a new agency, Japan Bank of International Cooperation (JBIC) and became the channel for ODA operations and the International Economic operation (Saxena & Kapoor, 2013). Recently, Japanese ODA loan assistance to India is received through JBIC meanwhile for the grant aid and Technical Cooperation are received through Japan International Cooperation Agency (JICA).

The testing of nuclear devices in Pokhran in 1998 by India marked a new low in the bilateral relationship between the two countries (Sahu, 2014). Japan viewed the test as a threat. The Japanese government believes the test is a threat for humanity. Japan dissatisfied with this incident by freezing of grant aid for new projects, suspending the yen loans, withdrawing Tokyo as venue for India Development Forum, and putting in place stringent regulations on technology transfers. Japan suspended economic assistance for three years and suspended all

political exchange between the two nations. The suspension could be seen in 1999 where Japan's aid to India is zero (Jain, 2017).

2. Japan's ODA Based on the Distribution Form to India

As mentioned earlier, there is three form of Japan's Bilateral ODA namely Yen Loan, Grant Aid, and Technical Cooperation. Japanese ODA to India has perhaps been a high point in economic linkages between both sides. The first aid from Japan came to India in 1958 as its first yen loan disbursement. After this aid, Japan cut their ties with India because of the Nuclear test that done by India. Japan and India start to repair their relationship by creating a global partnership among them. Since the relationship was repaired, the partnership the ODA given by Japan kept increasing.

a. Yen Loans

A loan is the act of giving money, property or other goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. Yen Loan means giving the modal or the money to be loaned to the developing country. However this loan is a bit different from the other loan. The reason is the loan is quite cheap; the loan was low interest with long term tenure. Table 3.1 below shows several loans from the donor countries given to India.

Table 3.1

Loan to India (100 Million Yen)

Year	ODA Loan
2000	189.26
2001	656.59
2002	1,112.04
2003	1,250.04
2004	1,344.66
2005	1,554.58
2006	1,848.93
2007	2,251.30
2008	2,360.47
2009	2,182.17
2010	2,035.66
2011	2,898.37
2012	3,531.06
2013	3,650.59
2014	1,186.43
2015	366.47*

Source: (MOFA, 2011), (MOFA, 2015), (MOFA, 2017)

)*Temporary Data

The data above show India's total foreign loans and they show Japan's contribution in the certain period that indicated above. There is a significant change in the ODA loans after 2006. Since 2007, the ODA loan given by Japan to India has kept increasing every year. The highest amount was 3.65 trillion yen. The amount of Yen Loan given to the India is mostly used in the Infrastructure sector. In 2011-2013, the ODA Yen Loan mostly used in the Electric Power & Gas; and Transportation. The amount of money in the Power section was 127.8 billion meanwhile the Transportation sector was 355.5 billion. In 2014, the major project that used the ODA loan were Guwahati Sewerage Project, Public-Private Partnership Infrastructure Financing Project, Project for Pollution Abatement of River Mula-Mutha in Pune, and Rengali Irrigation Project (Phase II) (MOFA, 2015). Recently, Japan tries to give a new Yen Loan towards India in the

infrastructure sector. This infrastructure focuses on the railway subsector. This project is a project to realize a Bullet Train in India or officially known as High-Speed Railway Project. The amount of the money given by Japan is estimated to be US\$12 billion.

b. Grants

Grant is a given aid which is not embedded with the responsibility to pay. The Table 3.2 explains the amount of grants given to India from Japan.

Table 3.2

Grants to India (100 Million Yen)

Year	Grants
2000	18.29
2001	14.34
2002	9.10
2003	17.44
2004	29.89
2005	21.09
2006	5.96
2007	3.97
2008	4.28
2009	3.81
2010	11.58
2011	2.78
2012	1.04
2013	16.62
2014	2.17
2015	0,143*

Source: (MOFA, 2011), (MOFA, 2015), (MOFA, 2017)

)*Temporary Data

The table shows the total grants received by India. Additionally, it showed the contribution from Japan in the Grants. The ODA here is non-repayable funds or products disbursed by one party often a government, corporation, to a recipient, often a nonprofit entity, educational institution, business or an individual. By giving this, Japan provides grant aid for India to fulfill the basic human needs

which mostly focus on health as one of the keys of MDGs. Mostly the grant aid was used for several humanity projects. For instance, the grant was used to help Japanese NGO in the India having a project and also to help some natural disasters that happened in India. The amount of the aid was not as much as the ODA loans. In this part some changes also happened in the Grants. The amount Grant to India in 2004 was doubled compared to that of 2003. The highest amount during this period was 2.9 billion yen. In 2014, most of the Grant aid is used for Grant Assistance for Japanese NGO Projects (3 projects) and Grassroots Human Security Projects (12 projects)

c. Technical Cooperation

Development is surely one of the main focuses of Japan's ODA. It includes the Technological Assistance. Technical cooperation is a term used to describe JICA's practical assistance to developing countries. Depending on the specific project, technical assistance can include the dispatch of JICA experts, the training of local officials for 'capacity development', the supply of equipment or financial assistance. Several projects were held in India in the form of Technical Assistance.

Table 3.3

Technical Cooperation to India (100 Million Yen)

Year	Technical Cooperation
2000	9.03
2001	10.15
2002	9.60
2003	10.34
2004	9.67
2005	8.36
2006	13.17
2007	12.31
2008	11.79
2009	18.55
2010	22.12
2011	34.69
2012	33.01
2013	43.62
2014	37.76
2015	4.86*

Source: (MOFA, 2011), (MOFA, 2015), (MOFA, 2017)

)*Temporary Data

This assistance role is to raise the human development or to transfer the ability from the Japan's technician delivered to the human resource in the developing country. This technical assistance is used in order to develop the quality of the human resource in the developing country. The amount of the Technical Assistance since the 2006 has started to increase significantly. The highest amount in this period was in 2013 when the amount of money was 4.3 billion yen.

Because of the external influence, India began its modernization in the beginning of the twentieth century. The beginning of the 21st century was a transformation in bilateral ties. The transformation was guided by Japanese PM Yoshiro Mori (Ghosh, 2008). The Japan suspension's economic assistance to

India did not happen again. During the Prime Minister Mori's visit to India, the Japan-India Global Partnership in the 21st century was launched providing the needed to increase a new relation. Japanese ODA continued to provide long-term loans for India's infrastructural development.

In the early of 21st Century, Japan and India resolved to get their new bilateral relationship. The Prime Minister of Japan and India agreed during the visit by Japanese Prime Minister to India in the 21st Century. The official visit of Indian Prime Minister Dr. Man Mohan Singh to Japan in December 13-16 2006 marked the India-Japan relations. At that time they established "India-Japan Friendship Year 2007", they also signed A Joint Statement "Towards India Japan Strategic and Global Partnership" (Ghosh, 2008).

The India-Japan CEPA (Comprehensive Economic Partnership Agreement) was signed in February 2011 practiced in August 2011 (Joshi, 2012). This was marked by the fact that more Japanese companies have entered India. Many companies in different fields, such as steel makers, car industry, pharmaceutical companies, and construction machinery producers have started interested at India. From this point, Japan and India Partnership became more developed.

A.P.J. Abdul Kalam, who was the 11th President of India, prepared a document named India Vision 2020. He mentioned that the plan of the vision is to transform the nation into a more developed country based on India's core competence, natural resources, and talented manpower to growth the GDP and realize the Vision of Developed India (Gupta, 2002). One of the visions of A.P.J.

Abdul Kalam is Infrastructure and Electric Power. In order to increase the infrastructure quality in India, India established their dreams for India's vision. According to the Vision 2020, India envisages the implementation of one HSR in each of the regions of the nation and plans for at least 8 corridors connecting commercial, tourist and pilgrimage hubs. The following 6 corridors have already been identified for pre-feasibility studies (Raghuram & Udayakumar, 2016):

- i. Pune-Mumbai-Ahmedabad (650 km approx.)
- ii. Delhi-Chandigarh-Amritsar (450 km approx.)
- iii. Delhi-Agra-Lucknow-Varanasi-Patna (991 km approx.)
- iv. Howrah-Haldia (135 km approx.)
- v. Hyderabad-Dornakal-Vijayawada-Chennai (664 km approx.)
- vi. Chennai-Bangalore-Coimbatore-Ernakulam-Thiruvananthapuram (850 km approx.)

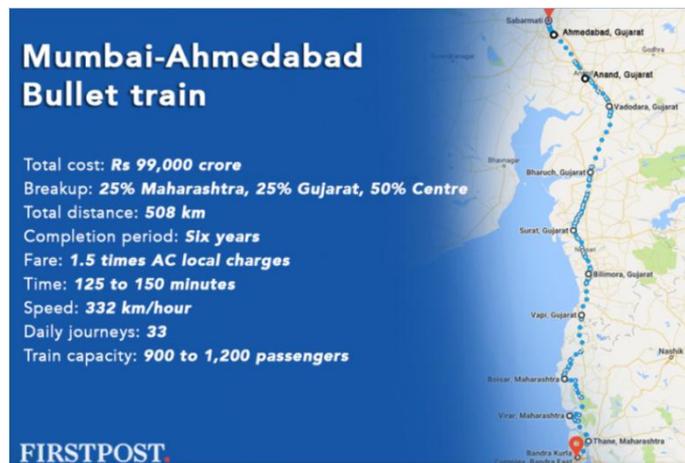
One of the reasons India welcomes Japan in the railway project is that Japan is one of the country that has already had a good railway technology system since the history. It can be seen in 1964, Japan established a first high-speed rail network between Tokyo and Shin Osaka. The *Tokaido Shinkansen*, Japan's bullet train has becomes internationally famous for its great safety record with zero fatal crashes for 50 years of it operation, as well as its punctuality and low pollution levels (Hood, 2006). Thus, Japan has tried to utilize on the strengths of Shinkansen technology. In 2013, the government triple its infrastructure exports, such as bullet trains and nuclear plants, to 30tn yen (\$262bn), and the Shinkansen

technology become the core of the country's economic growth strategy (Hood, 2006).

Mumbai-Ahmedabad Route Map

From those High-Speed Railway projects mentioned in the vision 2020, India welcomed Japan to help the realization of the High-Speed Railway project corridor. In this case, Japan will give an aid in the Mumbai-Ahmedabad Bullet Train corridor. The aid will be provided through JICA.

Picture 3.1



Japan will build India's first bullet train and provide a \$12 billion package of financing and a low-cost, long-term loan for the effort, the countries announced on Saturday. The new bullet train will have a route from Mumbai to Ahmedabad which has shorter time from 8 hours into 2 hours (Al-Jazeera, 2015). This Bullet Train will have a total distance of 508 km. This railway also has a capacity for 900 until 1200 passengers. Minister of State for Railways Manoj Sinha said that the Government of Japan has given an assistance package proposal for Mumbai-Ahmedabad high speed rail project including the financial assistance 81 percent of project cost as loan. He also added that a “joint feasibility study for the Mumbai-

Ahmedabad high speed corridor” which co-financed by Indian Railways and Japan International Cooperation Agency (JICA) has been completed in July 2015. The Ambitious Bullet Train in India will be started in late 2017 or early 2018 (All India, 2015).

At the first time, Japan’s ODA was used as the replacement of their method in acquiring another region or country. The approach was changed from the offensive way into a more peace way. The Foreign Aid or ODA given by Japan was mostly used for the Southeast Asia country where India was also included as Southeast Asia country by the Prime Minister Kishi. Japan started to spread their wings to South Asia which was believed as a far neighbor. However, the moment when India tried to do a nuclear test, Japan as the one which was fear the nuclear started to give a better relationship with India by giving a lot of foreign aid in the form of ODA which leads to a special relationship between India and Japan.

The good development in India makes India want to increase their infrastructure, one of the convincing projects in this development is the railway projects. As a country that has a good development in this sector Japan is surely welcomed by India to help and to give their aid to India to build India’s first bullet train. The amount of money used in this project is surely expensive in which the amount of fund is around US\$ 15 billion and Japan is ready to invest 81% of the total fund to India or around US\$ 12 billion. Therefore, Japan gives a lot of loan in this High-Technology Project to India indicating that Japan has another reason in giving this aid.