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ADVANCING INTO A NEW ERA FOR INDIA-JAPAN RELATIONS

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- The Indian economy has three facets: an impoverished developing country, an emerging market with huge purchasing power, and a treasure trove of skilled persons.
- Flows of foreign direct investment should be institutionally guaranteed. The present institutional framework is not effectively working to settle disputes involving joint ventures. Both the Indian and Japanese governments are expected to discuss ways of improving the institutional framework.
- Japanese companies should more actively provide training opportunities to semi-skilled workers and skilled employees.

Prime Minister of India Narendra Modi visited Japan on October 28-29, Mr. Abe and Mr. Modi agreed to commit to synergizing India's demographic dividend and Japan's capital and technology to realize the true potential of the two countries. How can they combine India's labor resources with Japanese capital and technology?

The present Indian economy has three facets. The first is that of a developing country where many people live under the poverty line. This is still a serious issue. The number of persons engaged in agriculture has declined since the mid-2000s partly due to the effects of mechanization. As the labor force increases, surplus labor must be absorbed into non-farm sectors. Job creation is the most important issue that the government of India must tackle. On the other hand, Japanese companies in India have complained of labor shortages. There is a mismatch between supply and demand, which is common among developing countries. Although the percentage of students going on to higher education is increasing, many youths still cannot complete primary and secondary school. Japanese companies are looking for vocational school graduates at reasonable wages. While the number of vocational school graduates has increased, their standard is not high enough to join Japanese companies' workshops immediately. On-the-job training on shop floors is necessary.

The second facet is that of an emerging economy. The domestic market for durable consumer goods has expanded constantly. Even low-income households have improved their purchasing power. Foreign companies have investment opportunities to capture markets comprising not only middle-class but also low-income consumers. As foreign direct investments (FDI) have the spillover effect giving domestic companies access to new technology and knowledge, they may contribute to improving the productivity of domestic companies. In fact, Japanese companies have actively provided advice to domestic suppliers to manage their own supply chains. India expects transfers of technology through FDI in addition to job creation.

India has an abundance of skilled persons in ICT as well as other sectors. That is its third facet. Every year many young skilled persons migrate to the US, but many ICT engineers also come to Japan, with some of them settling down in Japan with their families. Japanese companies in India employ managers and engineers but they face job-hopping by Indian employees.

If we take these three aspects into consideration, the direction of the relationship between the two countries becomes clear. First, flows of FDI should be institutionally guaranteed. The Economic Partnership Agreement between Japan and India became effective in 2011. The agreement includes articles on phased tariff reductions, investment rules and the movement of natural persons. Those on investment rules and the movement of natural persons conform to international rules. Japan's FDI in India jumped after 2008. FDI from Japan has been encouraged, and Japanese firms have been given a monopoly on a portion of the Neemrana industrial area. At the same time, M&A has been active between the two countries. In some Japan-India joint ventures, Japanese management has come into conflict with Indian management, and these joint ventures have become mired in disputes when the Japanese management withdrew from India. When the Japanese communications company NTT Docomo tried to terminate a joint venture with Tata, the London Court of International Arbitration rendered an arbitration award. However, the Reserve Bank of India opposed its enforcement, arguing that it amounted to a transfer of shares and was hence illegal. The present institutional framework is not effectively working to settle disputes. The rules on the termination of joint ventures are not clear. These disputes might discourage future FDI between the two countries. Both governments are expected to discuss improvements to the institutional framework.

Second, Japanese companies should more proactively provide training opportunities to semi-skilled workers and skilled employees. In 2017, the Japan-India Institute for Manufacturing started a program in which Japanese companies directly teach the discipline and attitude required at a manufacturing site as well as practical skills to young people in India to train future shop floor leaders. This is a move in the right direction. However, there is a communication gap between white-collar and blue-collar workers in many factories in India. In India, blue-collar workers cannot be promoted to white-collar positions. Good communication between engineers and workers on the shop floor is necessary for Japanese management, and how to establish this is an issue confronting Japanese companies. Japanese companies in India are trying to employ highly-skilled managers and engineers, but these personnel prefer American or European companies to Japanese companies because they cannot expect to rise to posts in the headquarters of Japanese companies. Indian employees in Japanese companies face a promotion ceiling. If the headquarters of Japanese companies were to accept excellent Indian prospects as executive trainees and send them back to India as executives, they might attract better employees and prevent job-hopping.

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