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No. 139

February 2017

JICA Research Institute



JICA Research Institute

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# Twin Peaks: Japan's Economic Aid to India in the 1950s and 2010s

Purnendra Jain\*

## Abstract

This paper concerns the significance of Official Development Assistance (ODA) in Japan's relationship with India. It explores how and why peaks in Japan's ODA to India parallel the two highpoints in the overall bilateral relationship – the early post-war period (roughly to the early 1960s), and the present (from the mid-2000s). It argues that whatever other purposes Japan's ODA may serve domestically and internationally through supporting economic development, in the program with India ODA has politico-strategic utility in signaling not just to India, but also to the rest of Asia and beyond, Japan's interest in strengthening this bilateral relationship to gain leverage in Asia. Early in the post-war period, collaboration with India was seen to provide an entry point for the development of primarily commercial relations with Southeast Asia and other Asian nations while lingering concerns about Japan's wartime incursions supported resistance to other approaches. Currently, while positioned as Japan's special strategic and global partner, and enjoying an ever more powerful economy, India helps open the way for Japan to extend strategic leverage within Asia and beyond. This is significant for Japan at a time when regional transformation, especially through China's rise, is becoming instrumental in reshaping the regional and global balance of power, causing Japan great strategic and economic concerns along the way.

**Keywords:** Japan, India, foreign aid, Japan–India relations, ODA, strategic ties, financial assistance

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The analysis presented here is based on the author's earlier work on Japan's ODA, and India–Japan relations, with further research since June 2016 through a short visiting fellowship at JICA-RI in June–July. Interviews in the Ministry of Foreign Affairs and discussions with JICA and JICA-RI staff also inform the analysis in this paper. Extensive library work was done in Tokyo and subsequently. During a short research trip to India in October–November 2016, I also discussed this research with the JICA Chief Representative in New Delhi, Mr Takema Sakamoto and his staff, a number of policy makers, and former Indian diplomats to Japan and academics. The author would like to thank them all. I am grateful to Dr Naohiro Kitano for his support in identifying and locating some of the critical materials on the topic, especially those pertaining to the early post-war period. Dr Hiroaki Shiga's advice on a range of ODA issues is gratefully acknowledged. The paper has also benefitted from the comments received from JICA, JICA-RI researchers, anonymous reviewers and the JICA-RI Review Committee. Professor K. V. Kesavan and Dr Takenori Horimoto read the draft paper and offered some useful advice for which the author thanks them. The normal academic caveat applies.

## **Introduction**

Japan and India today consider each other as trusted partners. Japan's official aid to India has been a mutually beneficial link running through this bilateral relationship since the early 1950s, and has helped to cultivate this trust. Its significance is particularly evident through the two highpoints in this relationship – early post-war (roughly to the early 1960s), and the present (from the mid-2000s) – when levels of Japanese aid to India have also peaked. Whatever other purposes are served at home and abroad by Japan's official development assistance (ODA), in the program with India has politico-strategic utility, as the parallels between the peaks in Japan's ODA to India and the peaks in Japan's overall relationship with India attest.

This paper examines the strategic nature of Japan's ODA to India to explain this pattern. The aid itself largely concerns Japan's yen loans program, because almost all of Japan's ODA to India has been provided through yen loans.<sup>1</sup> The paper argues that Japan's ODA to India continues to have politico-strategic utility in signaling not just to India, but also to the rest of Asia and beyond, Japan's interest in strengthening this relationship to gain leverage in Asia, especially through diplomatic and other networks. Early in the post-war period, acceptance by India provided an entry point for Japan into Asia that enabled Japan to extend commercial and political relations to the region while concern about the country's colonial history and wartime incursions remained strong. In this way, any continuing resistance to Japan's attempts to normalize relations with Southeast Asian and other Asian nations could be circumvented. Currently, India's position as one of Japan's special strategic and global partners, supported by its ever more powerful economy, again helps open the way

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<sup>1</sup> See [www.mofa.go.jp/region/asia-paci/india/pmv0504/oda\\_i.pdf](http://www.mofa.go.jp/region/asia-paci/india/pmv0504/oda_i.pdf). Yen loans are the largest component of Japan's ODA, the other two main types of bilateral aid being technical cooperation and grant aid, which India has received only minimally. Japan also channels aid from its ODA budget via multilateral agencies such as the World Bank, from which India may receive money contributed by Japan. But this aid too is not seen as a significant part of Japan's ODA to India.

for Japan, but now this is used to extend strategic leverage within Asia and beyond. This relationship is strategically valuable for Japan during the current regional transition period, given that China's rise as a great power is becoming instrumental in reshaping the regional and global balance of power, and that Tokyo and New Delhi have aligned some of their strategic interests in the region, not just with each other, but also with those of Washington.

This study is important given the significance to both nations of Japan's ODA to India for geostrategic as well as economic purposes. And, since Japan has successfully used this aid program to gain leverage within Asia, this bilateral program has also helped to geopolitically shape the region. Yet in studies of both the bilateral relationship and Japan's ODA program, the strategic dimensions of Japan-India ODA have remained outside the analytical lens.

Scholarship on Japan-India relations has not seriously considered the place or role of Japan's ODA.<sup>2</sup> Numerous studies have examined aspects of Japan's official aid program,<sup>3</sup> some even specifically its strategic nature,<sup>4</sup> and Japan's aid to major recipient nations and regions.<sup>5</sup> Yet there has been little analysis of the India component, and none of the topic explored here.<sup>6</sup> This paper seeks to deepen understanding of both Japan's relations with India, and Japan's aid policy overall, while also casting new light on an unexplored aspect of Japan's leverage within Asia's earlier and contemporary strategic transitions.<sup>7</sup>

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<sup>2</sup> See for example two recent books, Horimoto and Varma (2013) and Mukherjee and Yazaki (2016). Nor is there detailed discussion of Japan's ODA even in Japanese language books on Japan-India relations; for example, Yamazaki and Takahashi (1993) and Okata (1978). Two exceptions, Varma (2009) and Mishra (1997), provide only a broad-brushed picture of ODA in this relationship.

<sup>3</sup> In Alan Rix's (1980) classic study, Japan's economic aid India does not even appear in the index.

<sup>4</sup> For example, the seminal study of Yasutomo (1986).

<sup>5</sup> On China, see Takamine (2006); on Africa, see Lehman (2010), Raposo (2013, 2014). When analyzing Japan's aid to Asia, scholars draw on the examples from Southeast Asia and China, but not India. For example, see Soderberg (1996), Arase (2005), and Leheny and Warren (2010). Koppel and Orr (1993) include five countries of Southeast Asia, ASEAN, China, Republic of Korea, Bangladesh, Africa, Latin America and the Middle East, but not India.

<sup>6</sup> One of the few research articles on Japan's aid to India is Sahoo's article (n.d.) that focuses narrowly on the impact of ODA on infrastructure projects in India.

<sup>7</sup> A most comprehensive recent book presenting an overview of Japan's aid is Kato, Page and Shimomura (2016).

The paper is organized in four sections. The first concerns the early post-war years, when the available evidence supports the argument that Japan provided India official financial assistance because Tokyo considered New Delhi as a potential economic partner, and a critical political actor in the cultivation of Japan's post-war economic engagement with Asia. The second section considers the dramatic cooling in the relationship from the early 1960s, as cold war divides meant the two held divergent views on regional and global issues. Even in this situation though ODA, albeit at a lower level, served effectively as a nation-to-nation connector even though bilateral relations were low-key. The end of the cold war in the early 1990s brought an improvement in relations, but India's nuclear tests in 1998 drew Japan's condemnation, and punishment through a freeze on ODA. The third section considers the relationship's upward trajectory and the corresponding increase in ODA from around 2003. It focuses on the period from 2010, when ODA to India in relation to large and mega infrastructure projects was hugely increased, even within the reduction in Japan's overall ODA budget during this period. This surge in ODA to India from 2010 is explained in the context of India's growing geostrategic importance to Japan as the rise of China began to transform the balance of power across the region. Japan and India soon recognized that shared interests underpin their cooperation for regional stability. The fourth section concludes the paper by providing a discussion of the larger strategic landscape, India's relevance for Japan in the emerging reconfiguration of the Asia-Pacific region, and whether ODA will remain an effective instrument of engagement for Japan overall. Japan's ODA to India remains an important bridge within a bilateral relationship that is widening and deepening, including in the defence and security realms. Japan- India relations today are on much stronger ground than ever before, and the role of ODA has been most significant in the broadening and strengthening of those relations.

## 1. Japan's Aid to India

Japan's official financial assistance to India has a long history, its creation landmark being when Japan chose India as recipient of its first yen loans in 1958, just six years after the end of the Allied Occupation of Japan following World War 2. This feature is noted by scholars writing on Japan's aid policy (e.g., Orr 1990, 91), but is reported without much detail, and sometimes inaccurately. Hiroshi Kato's introductory chapter overviewing the 60-year history of Japan's ODA mentions in just one short sentence the historic yen loan to India in 1958, noting that 'The Yen Loan Program was invented as an effective means of boosting exports, a policy agenda most urgently felt among the policymakers of Japan at that time' (Kato, Page, and Shimomura 2016, 2). Some observers even fail to note that Japan's aid was initially to India, and rather trace it to Southeast Asia (Araki 2007). Arase's (1995) major work does note this landmark development, but has somewhat misinterpreted the events leading to the first yen loan to India in 1958.

To correctly interpret the events leading to the first loan, it should be noted that Japan provided 'official' financial assistance to India in other ways before the 1958 loan. When Japan joined the Colombo Plan in 1954, despite opposition by Australia and New Zealand, but strongly supported by India, Tokyo began to give technical aid to India (Shiga 2013,161), mainly in the agricultural and small business sectors. Furthermore, in 1952 Japan joined the World Bank, and in 1958 together with the United States, the Federal Republic of Germany, the United Kingdom and Canada became a founding member of the Aid India Consortium, initiated by the International Bank of Reconstruction and Development (IBRD) that was set up to help meet India's deteriorating foreign exchange reserve requirements.<sup>8</sup> With an expansion in membership in 1960 and 1961, the Consortium finally consisted of eleven Western member countries of the World Bank tasked with coordinating aid,

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<sup>8</sup> <http://documents.worldbank.org/curated/en/164191468034447809/India-Consortium>.

establishing priorities among India's major sources of foreign assistance, and simplifying India's requests for aid to support its plans for development.<sup>9</sup>

In 1951, Japan gave its first 'official' credit to India through deferred payment facilities for specific projects. The first involved iron ore mines in Goa, financed by the Export–Import (Exim) Bank of Japan, established that same year. While some may question whether export credits attached to Japan's exports of capital goods should be considered part of foreign 'aid;' it must be noted that Japan began its foreign aid in the 1950s under the name of 'economic cooperation' (*keizai kyoryoku*), not 'aid' (*enjo*) (Jain 2016c, 56). Thus, the definition of economic cooperation was much broader, and included reparations, technical cooperation, and government assistance to private businesses, undertaken through the Exim Bank; as acknowledged in the Ministry of Foreign Affairs first foreign policy review in 1957 (Rix 1980, 24).<sup>10</sup> Later, even the Organization of Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC) acknowledged that officially supported export credit was part of ODA (Okita 1968, 131). So, although not directly from the government of Japan to the government of India, these export credit projects came under the rubric of 'economic cooperation', as Japan's official aid was then known. In fact, the first yen loan in 1958 was similar to an export credit, and was once again arranged through the Exim Bank of Japan, but this time was bilateral lending to India on a government to government basis.

### *Yen credits*

The 1951 credit was provided to India via Japan's Kokan Mining Company, which signed a contract with a local company in Goa for iron ore development and imports (Ozawa 1986,

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<sup>9</sup> <http://www.mofa.go.jp/region/asia-paci/india/relation/relation.html>.

<sup>10</sup> Hard-term commercial loans were extended by the EXIM Bank of Japan. All of Japan's yen loans to India were also through the EXIM Bank until 1974–75, after which the Overseas Economic Cooperation Fund (OECF) took over responsibility.

605). The contract entailed the purchase of 540-million-yen worth of mining machinery, equipment, and technical assistance as reciprocity for the supply of iron ore over a three-year period. Ozawa (1986, 605) states that ‘the Goa project clearly set a precedent for what are now popularly called “new forms of investment”’; essentially non-equity contractual arrangements. Behind this deal with the Japanese steel industry was Vishwasrao Chowgule, whose company began to ship a small quantity of iron ore to Japan in 1950 (Kamat 2008). Japan sought a larger quantity of iron ore to fuel its growing industrial needs, but India lacked infrastructure to mine enough iron ore to satisfy these needs. Recognizing an opportunity for benefit on both sides, Chowgule negotiated a deal with Japan’s steel industry to provide finance to mechanize iron ore production in Goa, with the Goa side committing to sell a larger amount of iron ore to Japan for three years; an arrangement known as the ‘Goa Formula’ or ‘Chowgule formula’ (Ozawa 1986, 606; Kamat 2008, 99).<sup>11</sup>

Iron ore was a key raw material in Japan’s post-war reconstruction and industrial recovery, but Japan no longer had access to its pre-war and wartime sources of supplies from neighboring nations. Goa was thus a welcome alternative for long-term supply of iron ore for its industrial needs.<sup>12</sup> Indeed, iron ore became the foundation of Japan-India interdependency during the early post-war period (Yamanouchi 1992, 114). The Goa formula has thus been characterized as a win-win arrangement, since it enabled Japan to export equipment and import iron ore vital for its steel industry, while enabling Goa (India) to increase its export capacity, and gain foreign exchange and profit.<sup>13</sup>

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<sup>11</sup> Arase (1995, 39-40) mentions that the first yen loan to India in 1958 was given for supply of iron ores from Goa to Japan, but in fact the Goa Formula was developed through a different financial arrangement as noted above in this paper. Like Arase, Lancaster also incorrectly notes that the first yen loan to India was ‘to pay for Japanese goods and services associated with the development of iron ore in Goa’ (2011, 35).

<sup>12</sup> Australia, which later became a major supplier of iron ore to Japan, had imposed an embargo.

<sup>13</sup> This point was made by JICA-RI Director Dr Naohiro Kitano during an interview in Tokyo in June 2016. The Goa formula was later discussed as a model for China’s foreign aid, Brautigam (2011, 5).

This was of course not the first time that Japan imported raw materials, especially iron ore, from India. Japan's trade with India even before the war was substantial. Pre-war, India accounted for about 10–15 percent of Japan's total trade, with Indian exports including pig iron and raw cotton. India was then an important iron ore supplier, and the Japanese industrial conglomerate Kishimoto Shoten played a lead role in importing iron from Indian sources. Mitsui Bussan also imported iron ore, through a British company (Kobayashi 2000, 55). Goa was thus a source of iron ore for the Japanese steel industry even in the pre-war years, and while it supplied only about 2.6 percent of Japan's total requirements in 1950, by 1959 its share had grown to 14.5 percent. The provision of yen loans by Japan's Exim Bank to modernize production facilities and support port development in Goa was instrumental in enabling the increased supply (Kobayashi 2000, 56-57).

#### *First yen loans*

Japan's first yen loan to India in 1958 was formalized during Prime Minister Jawaharlal Nehru's visit to Japan in October 1957 (Kajima 1973, 41). 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). Kishi's visit to India in May 1957 was part of his six-nation trip to 'Southeast Asia' (Japan then regarded India as part of Southeast Asia), and in his meeting with his Indian counterpart he had promised to help India achieve the economic objectives of its Second Five-year plan. At the time of Nehru's visit to Japan five months later, a joint communique announced Japan would provide yen credit to India for the second five-year plan (Nihon Yushutsunyu Ginko 1971, 288). On 4 February 1958, the Japanese government agreed to provide a total loan of 1,800 million yen (equivalent to USD0.5 million) over a three-year period starting 1 April 1958 with 500 million yen, followed by another 600 million in 1959, and a further 700 million yen in 1960 (Nagano and Kondo 1990, 205, Kokusai Kyoryoku

Ginko 2003, 9). These loans, provided on a long-term basis with a low interest rate, were specifically for shipbuilding, power generation, mining, telecommunications, and steel production. India thus served as the first opportunity for Japan to define the objectives of its yen loans program; and this also demonstrated Japan's close affinity and economic partnership with the country (Nagano and Kondo 1990, 205).<sup>14</sup>

A prominent Indian scholar of India-Japan relations noted that 'the granting of a Yen 18.0 billion loan, therefore, was a major step taken by Japan and it was prompted by its growing need for markets and sources of raw material supply' (Murthy 1993, 334). Japan needed dependable suppliers of raw materials and reasonably stable economies for long-term trading partnerships. India fitted the bill very well at that point. For India, too, this development could not have come at a better time as the national government was about to launch its industrialization program under the second five-year plan. As Yamanouchi (1992, 113) understood; 'Japanese manufacturers of heavy machines and plants exported their products to the Indian market to build a strong base for future development of the friendly nation' (Yamanouchi 1992, 113). In fact, India's role in Japan's industrial development in the early postwar years has been likened to its role in Japan's industrialization during the Meiji period (1868–1912); when India supplied the raw cotton that helped Japan develop its textile industry, and thus propelled Japan's industrialization (Okata 1978, 41–48). India continued in this relationship of economic complementarity to the mid-1960s, while it remained the top recipient of Japan's yen loans. However, from that time Japan–India relations cooled, Japan shifted its focus – especially in terms of economic relations – to Southeast Asia, and then began to shrink India's share of its annual aid budget. This downward trajectory continued,

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<sup>14</sup> The interest rates offered were from 5.75 percent to 6.25 percent with a repayment period of ten years and three years of grace period (Kokusai Kyoryoku Ginko 2003, 9). This might have been generous at the time, but as Japan's economy grew and strengthened, Tokyo offered a far more generous interest rate and repayment terms than it offered to India for the first yen loans in 1958.

and even while Japan became India's top aid provider, on its aid table India remained well below many of the other nations in Southeast and East Asia in importance.

## **2. Early Postwar Political and Strategic Circumstances**

Japan provided the first yen loans to India in the context of a series of developments that generated a huge amount of goodwill in Japan, and aligned the two nations strategically. India became independent in 1947 after centuries of colonial rule. India's first Prime Minister Jawaharlal Nehru India became a critical voice on behalf of former colonies, and the newly independent nations in Asia and Africa. Although not a colony, Japan was occupied by the Allied powers following its defeat in World War 2. Despite some concerns in India about Japan's brutal prewar and wartime activity as a colonial power itself in China and elsewhere in Asia, independent India under Nehru generally viewed Japan with a degree of sympathy, and offered all possible support to bring Japan back within the comity of nations as soon as possible. Clearly Nehru believed that Japan could play a vital role in his vision of a new Asia, manifested in his hosting of the Asia Relations Conference in 1947 to which he invited Japan. In Japan, too, as Yamanouchi observed, 'Nehru's historical perspective was a subject of silent admiration amongst the Japanese people' (1992, 113).

At this time, Japan was occupied by the allied powers, virtually 'friendless', and isolated not just in Asia but in the international community at large. India was exceptional in its sympathetic stance towards Japan. So, although Japan then categorized India as part of Southeast Asia, its relations with India were characterized by circumstances very different from those that applied in the rest of 'this region. Japan found India an attractive partner to help launch itself in Asia as a genuine friend of all Asian nations, particularly to overcome the strong reservations within Asia about Japan's recent past. Japan's clear strategy was to befriend India, and through this relationship socialize it as a conduit for reengaging with

other nations in Asia, and beyond. India, too, believed in Japan's potential, given its prewar industrial strength and its location in Asia. To a newly independent India, Japan would be an integral part of its vision of Pan Asianism in a post-colonial world. So, the attraction was mutual and supported by similar strategic motivations, although their strategic expectations of each other were somewhat different. While India envisaged Japan as a key player in post-colonial Asia and a partner of India, Japan saw this linkage as a means to re-establish a respectable position in Asia through India's economic and political links. Six specific developments can be identified that built India's appeal to Japan.

First, though not directly an act of India or of independent India, was the dissenting view expressed by the Indian judge serving on the International Military Tribunal for the Far East that examined Japan's wartime actions. Judge Radhabinod Pal made a deep impression on Japan concerning Indian wisdom and generosity of spirit when he presented his verdict that Japan was not guilty of war. He argued that the Allied powers had created the conditions for Japan's military actions, and deemed it hypocritical that they too were not charged with such crimes (Murthy 1986, 221-274; Tuke 2011, 161). Pal's was the lone dissenting voice against the verdict of all other judges on the Tribunal that the 11 Japanese on trial should be classified as Class A war criminals (Nagano and Kondo 1999: 204). Judge Pal's dissenting voice resonates strongly with many Japanese even today, and this instance is told and retold in official and non-official pronouncements about the contemporary Japan-India relationship.<sup>15</sup> Also significant, was the fact that India, as a member of the Far East Commission, was also at the forefront of convincing allied powers to end their occupation of Japan.

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<sup>15</sup> During his visit to India in 2007, Prime Minister Abe held a brief meeting with the son of the late Radhabinod Pal, and appreciated the dissenting role played by his father at the Tokyo trial in rejecting all charges against Japanese leaders (Jain 2007a). Prime Minister Manmohan Singh in his address to the Japanese parliament in December 2006 reminded his audience of Judge Pal's 'principled judgement' Nakazato (2016,207).

The second source of Japan's positive view of India in the early postwar years was India's refusal to participate in the San Francisco Treaty Conference that the Allied powers organized to sign a peace treaty with Japan. India firmly believed that peace in Asia could not last if China and the Soviet Union were not party to the peace treaty. India instead promised to sign a separate treaty with Japan soon after the San Francisco Treaty, which it did in June 1952. The separate treaty was, in the view of the former Japanese ambassador to India, Eijiro Noda, 'distinctly more favorable to Japan than the treaty concluded in San Francisco' (1992, 63). For example, while the San Francisco Treaty allowed each of the Allied signatories to dispose of Japanese properties under its jurisdiction, India returned these properties to Japan.

Third, under the terms of the peace treaty, India renounced its war reparations claim, which Southeast Asian nations insisted they receive from Japan. This generous and forgiving disposition was made despite domestic resistance, since some Indian quarters saw the demand for reparation for Japan's wartime atrocities to be fair as per the terms of the San Francisco peace treaty. Salooja, for example, noted Japan's tortuous occupation of the Andamans from 1942 to 1945, claiming 'No nation teaches such acts of brutality that were followed by the Japanese in Andamans' (Salooja n.d., 9). When the issue of damages to compensate India for Japan's occupation of the Andaman and Nicobar Islands was raised in the Indian parliament, Nehru closed the matter, responding that India did not propose 'to take any further steps for recovery of compensation from the Government of Japan' (quoted in Mukherjee and Yazaki 2016, 180).

Fourth, India's forgiveness and generosity in not claiming reparations from Japan provided diplomatic leverage in negotiating with Southeast Asian nations. Connecting positively with these nations was especially important for Japan in the early postwar period, since Japan recognized their value, particularly in economic relations. Japan had experienced difficulties with its own attempts to open dialogue because of the strong resistance after its

wartime incursions, and the fresh memories of those activities in these nations' minds. Recently, an eminent Japanese scholar of Indian history has noted that Japan's peace treaty with India on the generous terms that India offered 'undoubtedly formed the first link in a chain of events that led to Japan's political and economic re-emergence in post war Asia' (Sato 2005, 14). Sato also contends that India's decision to waive reparations served as an example to Southeast Asian nations to consider 'scaling down' their reparation demands (2005, 12).

A fifth source of appeal can be traced to the political and diplomatic capital Japan acquired from India's efforts to help Japan integrate in regional and international fora and organizations as quickly as possible, as India rightly and presciently recognized Japan's potential regional and global role in the post-world war era. To that end, the Indian government invited then-occupied Japan to participate in the Asia Relations Conference, hosted by Nehru in New Delhi in March–April 1947 while he was serving as head of the provisional government preparing for India's independence (formalized on 15 August 1947). As an independent nation, India also invited Japan to the Delhi Asian Games in 1951, and was a central player in lobbying for Japan's entry into the UN and the first Afro-Asian Conference in Bandung in 1955 (Miyagi 2001). Japan could not participate in the Asia Relations conference, but it did join the Asian Games and did send representatives to the Bandung Conference, and it was admitted to the UN in 1956. With its invitations to these international fora legitimizing Japan's position as a fellow player in regional and international arena, India served as a valuable platform for Japan to reintegrate itself in Asia.

A sixth development, no less significant, was India's economic attraction as an import and export market for Japan, as noted earlier in this paper. Japan and India had 'had flourishing trade' even before the Second World War (Yamanouchi 1992, 112) and in the early postwar period experienced a quick resumption of these links. As early as May 1948, India welcomed a Japanese trade mission, and promised to assist Japan's industrialization

through supplies of raw materials such as iron ore, cotton and jute. India, unlike many other nations in Asia and elsewhere, did not perceive that an economically strong Japan would pose a threat (Sato 2005, 5). Even before their peace treaty was finalized, another 'semi-official' mission visited India in March 1952, headed by Taizo Ishizaka, President of Toshiba Corporation. India welcomed Japan's recovery as a bilateral partner and regional community member, while Japan saw India as a strategically significant market 'with easy access and little stigma of wartime occupation and torture' (Sato 2005, 10). In the early 1960s more than 27 percent of Japan's iron ore imports were from India, but as the relationship began to cool India's share declined, its place slipping to number three after Australia and Brazil (Chang 1994, 89.)

The attraction was not one-sided though; both nations saw mutual-cooperation to be in their national interest, and both had strategic motivations. India under Nehru had provided generous terms for the peace treaty with Japan to secure Japan's support for his peace initiative in the post-war world, and in Asia specifically, while Japan welcomed goodwill from India as a springboard for its re-emergence in post-war Asia (Sato 2005, 14). Both had positive views of each other, which led leading figures from both sides to exchange visits, including by the President of India and Prime Minister of India to Japan, and the Japanese Prime Minister and the Crown Prince to India (Nasu 1964, 36). And while India welcomed Japan's aid largesse, it also served as a 'showcase' for Japan's development assistance model (Tuke 2011, 208). This was strategically very important for Japan while Southeast Asian nations were still suspicious of Japan's wartime concept of a 'Greater East Asia Co-prosperity Sphere,' and were suspicious of Japan's aid as another attempt to establish supremacy over them (Shiga 2013, 161). The rhetoric of Prime Minister Hayato Ikeda during his visit to India in 1961– that Tokyo and Delhi were the 'natural pegs' of a security system in Asia – spoke volumes about India's diplomatic and strategic importance to Japan at the time (Gupta 2014, 47), even though Ikeda regarded India as undeveloped and poor.

Nevertheless, while the two were strategically inclined to each other, the reasons for their mutual inclination were somewhat out of sync, which soon became apparent after 1961. For India, Japan's strategic appeal depended on its independence. But cold war partnerships that would strategically polarize much of the globe were surfacing on numerous fronts, and served to highlight the relative weakness of the newly built goodwill, respect and politico-strategic alignment between them. Japan built closer ties with the US through their revised bilateral Security Treaty, and actively began to cultivate relations with other countries in Asia, particularly Southeast Asia, because its priority was economic growth and it perceived these countries to offer Japan better prospects than India did. India drifted politically, entered war with China and Pakistan, and suffered from a faltering economy.

Sato rightly observes that India was phased out of the Japanese diplomatic horizon after the 1950s, as Tokyo began to shift its focus increasingly to Southeast Asia. But he also notes that India's goodwill never dissipated, and has often been invoked whenever Japan wanted to revitalize relations with India to extend its diplomatic horizon beyond Southeast Asia (Sato 2005, 14). As discussed later in this paper, Japan is now coming out of its roughly three and a half decades of distancing itself from India, and its outreach to India in the twenty-first century in the wake of regional transition has invoked that country's postwar goodwill as a basis to forge new ties. A key difference between the 1950s and contemporary relationships is the institutionalization of bilateral interactions in the latter period, with solid political and economic institutions underpinning the two nations' shared interests bilaterally, regionally and globally.

### **3. The Intervening Years: Low-Key Ties (Mid-1960s to the Late 1990s)**

During these long 35 years, the trajectory of Japan–India relations was largely low key. A vast literature discusses and explains the low-key interaction in this period (Mathur 2012, 11-

13; Jain 2002, 2010). Political and commercial relations grew only moderately in this period, despite Japan's economic ascendancy and expanding global economic networks. But Japan's aid to India continued throughout, even though there were short breaks following some developments in India, and a striking break as Japan's response to India's 1998 nuclear testing. The low-level interaction can be illustrated through several key indicators. At the political/diplomatic level, for example, we see a gap of 23 years between the 1961 visit to India by Japanese Prime Minister Hayato Ikeda (who also visited Pakistan), and the 1984 visit by then Prime Minister Yasuhiro Nakasone. Japan held its focus during the period on Asia, but Tokyo now no longer regarded India as part of its Asia strategy. Studies of Japan–India relations through the period have noted this apathy and low-level interaction (e.g., Yamazaki and Takahashi 1993), and some studies on Japan's interaction with Asia even in the 2000s do not include analysis of Japan's relations with India (e.g., Tanaka 2007).

The decades of the sixties, seventies and eighties, when India was almost absent from Japan's Asia vision, were the most crucial years in Japan's postwar history, for this was when the nation reached its economic pinnacle by becoming the world's second largest economy, and 'a new kind of superpower' (Garby and Bullock 1994). Japan was the key player in establishing the Asian Development Bank in 1966 with the aim of financing development projects in Asia. With the formation of ASEAN in 1967, Japan found an institutional platform to engage Southeast Asian nations beyond its bilateral ties. While India was sidelined during this period, many Japanese prime ministers visited Southeast Asian nations. Important policy announcements were de rigeur, including the famous 1977 'Fukuda doctrine,' with a lavish aid package (Lam 2013) to convince these nations of Tokyo's intention for peaceful engagement with the region. Tokyo's earlier conception of a Southeast Asia that included India was now gone. Furthermore, Japan normalized its diplomatic relations with the People's Republic of China in 1972, and signed a peace treaty with the PRC in 1978. With China's economic liberalization program set in motion in the late 1980s,

Japanese capital flowed to China, including Japanese ODA on terms that were unprecedented (Takamine 2006; Katada 2010, 59).<sup>16</sup> While Southeast Asia and East Asia, particularly China, became close partners of Japan, India essentially sat on the periphery, partly because of India's slow economic growth and restrictive policies on foreign investment, and partly because of its global political alignment.

Reasons for this low-key interaction are not hard to find. India's domestic economy was unattractive to Japan because of its slow economic growth, lack of infrastructure, and restrictions on foreign capital and investment. Politically, its initial policy of non-alignment and later its virtual alignment with the Soviet Union, especially after New Delhi signed a treaty of friendship with Moscow in 1971, saw India's global status suffer a huge setback, at least in the Western world, including Japan. In Japan, India's policy of 'non-alignment' was constructed as 'Soviet tilted and anti-West oriented' (Hirabayashi 2002, 27). Yet Japan had done the same by clearly and strongly aligning itself with the Western camp, embracing the United States as both its chief provider of security and nuclear protection, and its main trading partner. The bipolar world of the cold war period categorized nations in one or the other camp; Japan was in one camp and India was in the other. Thus, two nations that had become close friends and partners in the immediate postwar years were essentially looking in opposing directions during most of the cold war period, with minimal sharing of interests or ideas. India cried out for at least moral support from Japan at the time of its wars with China and Pakistan in the 1960s, but Japan was reluctant to offer a helping hand, and avoided taking sides. As Madhavan, a former diplomat and India's ambassador to Japan writes, 'In India's external involvements, whether over Goa (1961) or the conflict with China (1962) or the wars with Pakistan, or the treaty with the Soviet Union (1971), Japan was out of sympathy with India or even critical' (Madhavan 1992, 40-41). Similarly, at the liberation of

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<sup>16</sup> China, like India, had also rejected reparations from Japan when it resumed diplomatic relations in 1972. Japan paid some \$1.5 billion to Asian countries from 1955 to 1977, in what has been termed 'compensation diplomacy' (Feng 2005, 206).

Bangladesh in 1971, Japan simply refused to help India deal with millions of East Pakistan refugees who flooded into India because of the conflict between the two Pakistans. Aftab Seth, a former Indian ambassador to Japan, records in his memoirs that, as he saw it, Tokyo had simply followed Washington on this issue, and expressed no independent views of its own (Seth 2015, 30-31).

There were, however, some bright spots in the exchange of visits by prime ministers Nakasone and Rajiv Gandhi in the mid-1980s, and the end of the cold war in 1991 created prospects for the two nations to rekindle relations, as symbolized by Prime Minister Toshiki Kaifu's visit to India (together with Bangladesh, Pakistan and Sri Lanka) in 1990 (Jain and Todhunter 1996). However, the trajectory of any upward movement in political and strategic fields remained on a low level. Arguably, during these intervening years, Japan and India experienced a role reversal in terms of their world status and international profile. In the early postwar period, it was Japan that sought support from India, New Delhi provided it, and Japan responded in kind. For most of the cold war period though, it was India that turned to Japan for economic and diplomatic support, but Tokyo was generally hesitant in its responses.

However, Japan–India relations in this period, although not close, were not hostile either. Frustration and disappointments on both sides defined the relationship, and expectations of each other remained unfulfilled. India wanted trade with and investment from Japan, but this did not progress partly because of India's restrictive economic policies. And political relationships were not strong either, as Japan insisted that India sign the Nuclear Non Proliferation Treaty (NPT) which Japan had ratified rather reluctantly in 1976, six years after it had signed the treaty. Weak political ties certainly have their own dynamics when it comes to economic relationships. Writing in 1993, India's foremost scholar on Japan and Japan–India relations observed that because Japan's trade with India was limited, so was its level of investment, and this level continued to shrink further throughout the postwar period.

Indeed, he claimed that Japan's economic relations with India remained on a rather low key for the entire postwar period (Murthy 1993, 154, 170).

### *ODA as a Connector*

With this lack of strategic and political alignment due to the cold war divide, Tokyo's overall diplomatic interest in India remained quite low. Nevertheless, Japan continued ODA to India, although of course at a scale much lower than for some Southeast Asian nations, and later China. Japan saw much more potential for economic growth and business opportunities in China and Southeast Asia than in India, which was stagnating economically, and was distant geographically as well as psychologically. In Japan's overall ODA budget, which was rising exponentially as the economy boomed in the 1970s and 1980s, India appeared to have slipped a little lower down the table; but from India's perspective Japan remained a much more significant aid donor than many of Japan's Western peers (Tsuji 2012; Balatchandirane 2012). As Murthy notes, although other recipient nations replaced India in Japan's eyes; for India Japan remained the single largest source of external assistance. The monetary value of Japan's loan aid to India between 1958 and 1992 increased in yen terms 6.66 times, and in Indian rupee terms almost 94 percent (Murthy 1993, 335). The 1980s saw a steady rise in the size of Japan's yen loans to India (Murthy 1993, 336). By 1999 the value of Japan's ODA package to India was close to 1.5 trillion yen, across 143 projects.<sup>17</sup>

Despite significant aid to India, Japan's overall engagement with the country thus remained weak. Even in the 1990s when India's economic prospects looked positive and it had unshackled itself from cold war burdens, Tokyo was hesitant about a closer partnership with New Delhi (Seminar 1992); some have dubbed the 1990s the 'lost decade' for Japan-India relations (Ito 2017). Indeed, Kojima has argued that Japan and India's economic relationship has been 'estranged' since the mid-1960s (2014, 7). Certainly, India has figured

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<sup>17</sup> Sector wise breakdowns of yen loans from 1976 to 1999 are listed in Kokusai Kyoryoku Ginko 2003, 236-238.

poorly in Japan's overall trade and investment networks in Asia and beyond, but to cast the economic relationship as estranged, and the 1990s as a lost decade, fails to capture some of the key developments in the period. In fact, one such event in the 1990s, although noted, has not been highlighted in the analysis of the Japan–India relationship.

#### *Japan's financial packages*

In the early 1990s when India faced a serious financial crisis and was on the verge of national bankruptcy, Japan offered valuable and timely financial packages to India. Japan was the only country that responded to India's request at the time (Horimoto 2015a, 103). Former Indian Ambassador to Japan Arjun Asrani records India's appreciation that Japan came to India's rescue in this crisis. He notes:

The situation was so bad that the Government of India were seriously considering selling our highly valuable Embassy Office property along the Imperial moat at Chidorigafuchi in Tokyo. Fortunately, Japan extended quick-disbursing bilateral aid, and helped [with] further assistance through the Asian Development Bank, World Bank and IMF. The Finance Ministry of Japan also advised Japanese banks to roll over [the] substantial short term commercial debts of Indian entities (Asrani 2012, 23).

Japan's then Ambassador to India, Shunji Kobayashi, claimed that in May–June 1991, Japan provided two loan packages totaling USD300 million as India was facing depletion of its foreign exchange to the point of national crisis. The loans were disbursed into the Indian government's account within a matter of weeks (Murthy 1993, 483).

There is, however, some confusion as to how and when the package was put together and why Japan agreed to the rescue package. Ambassador Hirabayashi records that Finance

Minister Manmohan Singh came to Japan asking for Japan's assistance in the wake of a financial crisis in India following the Gulf War and India's foreign exchange crisis (2012, 9). However, Singh only became India's finance minister in late June, and Japan had by then already agreed to a financial rescue package consisting of two separate loans, as a response to India's financial crisis.<sup>18</sup> In fact, according to Vyas (2007), it was Finance Minister Yashwant Sinha under Prime Minister Chandrasekhar who travelled to Tokyo in April 1991 seeking Japan's assistance. Although Japan offered two packages in record time, reports suggest that the Indian finance minister was badly treated by the then Japanese finance minister Ryutaro Hashimoto, who made the Indian minister wait in his chambers until Hashimoto was ready to see him.<sup>19</sup> He then met the Indian finance minister only briefly (Vyas 2007), and directed him to his top bureaucrat in the Ministry of Finance, rather than discussing the issue at the ministerial level.<sup>20</sup>

This was a national crisis and, although humiliating to India, most of my interviewees in Tokyo make the point that in this instance Tokyo made its fastest decision in Japan's aid history, and they regard it as a turning point in the bilateral relationship.<sup>21</sup> India under the new prime minister, and his finance minister Manmohan Singh, launched the process of economic reform that has rewarded India very well. Japan's goodwill has been well expressed in Ambassador Asrani's comment above, and Ambassador Hirabayashi states that Singh in his capacity as India's finance minister, and later as its prime minister has

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<sup>18</sup> Author's interview in Tokyo with a former official involved in preparing the financial package, 12 July 2016.

<sup>19</sup> One senior official in Tokyo who was involved in India's emergency package informed me that Hashimoto's attitude towards India was rather cool and he even regarded India as a regional bully, especially with regards to Nepal, a country in which Hashimoto had great interest because of his interest in mountain climbing. Tokyo, 11 July 2016.

<sup>20</sup> This episode is also recorded in Tuke (2011, 179), and confirmed to this author by then Indian ambassador to Japan, Mr. Arjun Asrani. Personal interviews, New Delhi, 28 October 2016. Ambassador Asrani in his oral history also points out that Hashimoto was no 'friend of India' and believed that India always bullied Nepal, his favorite country as a mountain climber (copy of oral history provided by Mr. Asrani to the author).

<sup>21</sup> Interview at JICA 11 July 2016.

always acknowledged the importance of Japan's assistance at a most critical time in India's financial history (Hirabayashi 2012).

It is not clear, however, why Japan offered this rescue package to India, as their relationship was not particularly strong in this period. After all, Japan's then finance minister was hardly interested in India, and there was no strong India lobby in Japan that might have pleaded India's case at that critical moment. One such person in Japan was long-time India friend, Yoshio Sakurauchi, a veteran LDP politician who served in different ministerial positions, and was speaker of the lower house when the Indian crisis came to the fore. According to Horimoto, Sakurauchi (1990–1993) 'responded to MOFA calling for assistance to India with a view to placing greater priority on Asian diplomacy. He lobbied the three top-ranking officials in the ruling party (Liberal Democratic Party), and the Finance Minister to realize the loan' (Horimoto 2015b, 3). Sakurauchi's contribution to public service and the India–Japan relationship was recognized by the Indian government in 1989 through the conferring of India's third highest civilian honor, the *Padma Bhushan*. While still active in politics, Sakurauchi became the chairman of the Japan–India Association in 1997, and continued in this position until 2002 even after his retirement from politics in 2000.<sup>22</sup>

Even though India's importance strategically and politically remained low-key, ODA stayed in place as a great connector through which other kinds of interactions at bureaucratic and business levels continued. When Japan prioritized its aid goals through its 1992 aid charter, with its philosophy of environment protection, encouraging/supporting democracy, restricting military expenditure, and promoting market reform, India must have loomed large on all those criteria. Japan was by then an aid superpower, and it would have wanted to keep its networks with India active.

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<sup>22</sup> The author tried to locate documents about this event, and especially about the role played by Sakurauchi, but was not able to locate any pertinent material.

It can also be argued that Japan's aid to India even during this low- engagement period had some strategic edge. One aspect was of course to maintain Japan's engagement with India even though there was mismatch in their world outlook; the two nations had the longest history of democracy in Asia, had shared interests in the past, and had a bank of mutual goodwill. Another strategic edge was Japan's desire to persuade India (together with Pakistan) to accede to the NPT and the Comprehensive Test Ban Treaty (CTBT), although this aim failed miserably. Thus, it is not difficult to understand Japan's strong criticism of India in the wake of India's nuclear test in 1998, which included withdrawal of ODA, its main diplomatic instrument of engagement, and foreshadowed a total breakdown in the bilateral relationship. Ryutaro Hashimoto, who was never sympathetic to India, as the then prime minister may have added to the intensity of Japan's reaction. During this intervening period, Japan's aid to India was the main bilateral linkage and its withdrawal left little to draw them together. As Kesavan observes: 'Since ODA had been the core component of our bilateral relations, once it was suspended, it naturally affected almost the whole gamut of our bilateral activities' (2002, 18).

Thus, given these developments in the 1990s, especially Japan's ongoing links with India through ODA, the assessments of India–Japan relations as 'estranged,' and of the 1990s as a 'lost decade' appear excessive. Even so, Japan's withdrawal of ODA in 1998 for at least two years presaged a period that may well fit the bill as 'estrangement'.

#### *Japan's ODA and India's Nuclear Testing*

Indeed, 1998 saw the lowest point in the history of Japan–India relations with India's nuclear test in May. This was of course not the first time that India tested nuclear devices.<sup>23</sup> But reactions this time were much more severe than before, leading to Japan imposing economic

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<sup>23</sup> When India tested its first nuclear device for 'peaceful purposes' in 1974, Japan's reaction was rather mild. It triggered discussion about Japan's own nuclear options (Langdon 1975), and Tokyo announced that 'aid to India would not be increased' (Endicott 1975, 75; Spector 1985, 60).

sanctions and suspending its ODA to India.<sup>24</sup> The suspension applied to all new grant aid (except for emergency and humanitarian aid, ongoing projects, and grant assistance for grassroots projects) and new yen loans, leading to a zero figure in 1999. Not only did Japan punish India directly within the bilateral relationship, Tokyo condemned India's act at every possible international forum, including the UN, the ASEAN Regional Forum (ARF), and the G-8 summit. The strength of Japan's punitive reaction and India's perception of this harsh and uneven policy response created an unprecedented divide between the two nations (Jain 2002, 226-29).

But, this reaction was in complete contrast to the Japanese response to India's 1974 nuclear test; soon after this test, consultative meetings between Indian and Japanese officials were held in New Delhi, and Japan agreed to extend yen credit for goods and projects and rescheduled the repayment of debt.<sup>25</sup> And even after the emergency imposed by the Indian government suspending fundamental rights on Indian citizens, the Japanese government pledged to continue with its 14th and 15th yen loans.<sup>26</sup> The Japanese government's response suggested it was not seriously concerned about India's human rights violations or lack of democratic process. But by the time of India's 1998 test Japan's ODA charter was in place (introduced in 1992), and Tokyo calculated that the economic cost of sanctions on New Delhi was low for Japan since it had few commercial interests at stake. Tokyo also assessed the diplomatic cost of not upholding its ODA charter, and so did not hesitate to use the instrument of ODA punitively (Tuke 2011, 180).

But the winter was short. In October 2001, Japan praised India's efforts towards nuclear disarmament and non-proliferation, and resumed providing ODA to India, well before Prime Minister Atal Bihari Vajpayee's visit to Japan in December 2001. Japanese

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<sup>24</sup> Yen loans were also suspended in 1965 and 1971 when India and Pakistan were engaged in wars (Murthy 1993, 335). Like 1998, Japan suspended aid to both India and Pakistan in 1965 and 1971.

<sup>25</sup> <http://www.mofa.go.jp/policy/other/bluebook/1974/1974-3-1.htm#Section%201.%20Promotion%20of%20Relations%20with%20Other%20Countries>

<sup>26</sup> <http://www.mofa.go.jp/policy/other/bluebook/1975/1975-2-1.htm#Section%201.%20Promotion%20of%20Relations%20with%20Other%20Countries>

officials defended Tokyo's act, claiming that 'economic measures' were taken not to 'penalise' India but as an 'expression of dismay and disappointment', leaving the door ajar for renewed engagement (Tuke 2011, 180). Although Japan stopped its ODA to India and no new yen loans flowed to India in 1999, it is often not recorded that some of its loan commitments could not be stopped, since this would have been in breach of contractual obligations, and have serious legal implications. For example, the Delhi Metro project was funded through time-sliced lending in phases, and per one source in Tokyo, funding for this project continued discreetly even though sanctions were in place.<sup>27</sup> Also, funds were released for those projects for which commitments were made prior to the sanctions, as seen in the case of the Bakreswar Thermal Power Station Unit 3 Extension Project (II).<sup>28</sup>

The years from the early 1960s to the beginning of the twenty-first century have been captured well by former Indian ambassador to Japan Aftab Seth, who observes 'our political relationship, while cordial [in these intervening years], did not have substance that we see in the 21st century, where we enjoy a robust strategic and global partnership' (Seth 2015,33). In the next section, we move to the period from 2005, especially from 2010, to analyze Japan's expanding aid to India in the context of India's increasing strategic importance to Japan in the bilateral relationship that has taken shape as a 'robust strategic and global partnership.'

#### **4. Japan–India Relations in the 2000s**

Japan lifted its economic sanctions on India in late 2001, and soon resumed its aid. Increases to the package were rapid, making India once more the largest recipient of Japanese aid by 2003.<sup>29</sup> The 2001 ODA loan of 65 billion yen was almost doubled in 2002 to 111 billion yen, doubled again to 225 billion yen by 2007, and had been increased a further 60 percent to 365

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<sup>27</sup> Interview at JICA, 21 June 2016.

<sup>28</sup> <https://www.jica.go.jp/press/archives/jbic/japanese/base/release/oecf/1999/0324-j.html>

<sup>29</sup> All ODA data I use in this paper are from the Ministry of Foreign Affairs website unless otherwise indicated. <http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/jisseki/kuni/index.html>

billion yen by 2013. The cumulative total of yen loans to India in 2011 stood at 3,600 trillion yen, rising to 4,575 trillion yen in 2014, that is, an increase close to 975 billion yen in the four years from 2011–2014. To increase the size of its ODA loans to India from the relatively very small 115 million yen in 1998 (zero in 1999), to an average of 250 billion yen annually between 2011 and 2014, suggests a lot about India's importance to Japan, especially while Japan's aid budget has been in decline for more than a decade resulting from national economic stagnation, and the consequent reductions in government revenue.

It seems apparent that Japan could allocate more new and large loans to India partly because of its decision to gradually reduce aid to China from 2003, the year when India became Japan's top ODA recipient. In 2008, the year of the Beijing Olympics, Japan phased out its ODA loans to China, freeing up huge amounts of money that could be directed to India and elsewhere.<sup>30</sup> The China factor seems to have loomed large in Tokyo's strategic choice of India as the largest recipient of aid. Further, Japan could continue providing large loans as ODA because Japan now receives huge repayments from countries like India and China for the loans Tokyo provided to these countries in past decades.

It is not just that Japan has become the largest source of foreign aid for India, as it was in the past. Now India tops Japan's list of the largest recipients of its ODA. A further consideration relating to India's special position within Japan's aid program is that it has come in the context of Tokyo expanding its geographic focus beyond Asia. In the early postwar years, Japan directed 98 percent of its aid to Asia, which it successively decreased to 70 percent in 1980, to 54.8 percent in 2000, and to 48.4 percent in 2011, but increased to 58.3 per cent in 2014 (MOFA 2016). Japan now reaches out to some 150 countries, and focuses more than before on the African continent as is evident from the TICAD VI in 2016 in Nairobi; yet the Asian share remains by far the largest of any region, even though it is

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<sup>30</sup> For circumstances leading to the phasing out of Japan's foreign aid to China, see [http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/06\\_databook/pdfs/01-04.pdf](http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/06_databook/pdfs/01-04.pdf); [http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/12\\_databook/pdfs/01-04.pdf](http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/12_databook/pdfs/01-04.pdf); Katada 2010

significantly lower than in earlier years. India, Indonesia and Vietnam, in recent times the three top recipients, are likely to remain important to Japan's aid for some time to come. This is because they not only have strong economic prospects, but more importantly also have strategic relevance to Japan, as explained below.<sup>31</sup>

### *Infrastructure Aid*

Japan's ODA focus on India remains mainly on large infrastructure projects that Japan regards as important for its own political economy; economic growth in India through these aid projects will position Japanese companies in the front line for future business with India. This practice is like its previous involvement with other Asian countries through what has been termed the 'trinity development cooperation' of aid, investment, and trade (Shimomura and Wang 2013). However, Japan is also involved in some projects in India that are more strategic in nature; with their potential benefit for Japan reaching beyond investment and trade. It is therefore useful to consider some of the major projects that simultaneously upgrade Japan's position in India and privilege Tokyo as India's important development and strategic partner. Significantly here, India decided in 2003 to receive aid only from a select number of countries, elevating Japan's special position in India as an aid donor.<sup>32</sup>

One of the most prominent and visible ODA projects in India's transport sector has been the Delhi Metro. Begun in the late 1990s, its first section came into operation in 2002, and expansion is still under way in several phases covering greater Delhi and neighboring states as more Japanese aid money flows into this project. It could be regarded as a major Japanese ODA footprint in India – aid with a Japanese face. Based on the success of the Delhi Metro, Japan is also providing loans for similar mass transit projects in other metropolitan cities in India, such as Kolkata, Bengaluru and Chennai, and demand for such

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<sup>31</sup> The 2006 Japan's Country Assistance Program to India also considers the strategic orientation of Japan's aid to India. [www.mofa.go.jp/policy/oda/region/sw\\_asia/india.pdf](http://www.mofa.go.jp/policy/oda/region/sw_asia/india.pdf)

<sup>32</sup> <http://hindunet.org/hvk/users/hvk/articles/0603/51.html>

projects is likely from other Indian major cities as India continues to urbanize. Japan's role will remain critical because of its long experience in the Indian transport system, its technological capacity, and its willingness to provide loans for such projects.

Japan is also providing funds through its ODA budget to support some of India's most ambitious infrastructure projects: the Delhi–Mumbai Industrial Corridor (DMIC), and the Dedicated Freight Corridor (DFC) being the two key examples.<sup>33</sup> The idea of promoting DMIC was endorsed at the Japan–India summit meeting at the time of Prime Minister Singh's visit to Tokyo in December 2006. This massive project is estimated to cost some USD90 billion, and incorporates financial and technical assistance from Japan. The DMIC plan entails the construction of 24 industrial cities with world-class infrastructure across six states in western India by 2040, covering 1600km. The DFC project is an important part of the DMIC initiative, and involves constructing 1490km of double track electric railway, designed to dramatically cut transportation time from the present three days to one day, and to increase freight volume by 3.6 times per train.<sup>34</sup> Apart from these mammoth projects, Japan has already committed to the Chennai–Bengaluru Industrial Corridor (CBIC), and the financing of more infrastructure projects is under discussion.

Another much-discussed, state of the art, politically consequential rail link to which Japan has now made a commitment, is India's first-ever Shinkansen or bullet train to run from the nation's financial heart, Mumbai, to its commercial and port city of Ahmedabad, in Prime Minister Narendra Modi's home state of Gujarat. This mega project, initially estimated to cost close to US\$15 billion, is to be funded largely through Japan's ODA budget. Japan finally announced that it would fund the project during Prime Minister Abe's visit to India in December 2015.

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<sup>33</sup> The Japan Bank of International Cooperation (JBIC) has also injected investment through 26 percent equity in the project. <https://www.jbic.go.jp/en/information/press/press-2012/0329-7403>

<sup>34</sup> Four other corridors are on the drawing board: the East–West Corridor (2000km), the North–South Corridor (2173km), the East Coast Corridor (1100km) and the Southern Corridor (890km).

The significance of these projects is that, in principle, India does not accept ODA loans on a tied basis. With Japan, however, New Delhi has agreed to a special arrangement to accept such tied loans for projects such as the DFC and the bullet train, based on what Japan calls STEP or Special Terms for Economic Partnership. Loans for these projects are tied to Japanese technologies and know-how. With Japan's new emphasis on 'quality infrastructure', 'quality growth' and 'quality partnership', its ODA money is now increasingly linked to Japanese technology, design and construction. This 'quality' narrative is a distinctive feature of Japan's aid, and distinguishes it from China's aid, which is considered to be of lesser quality and value. Japan winning the bullet train project in India was hugely significant strategically after Japan had lost out to China for a similar project in Indonesia one year earlier. China is India's largest trading partner, a significant player in the Indian market, and is currently involved in feasibility studies of high-speed trains in India. India's decision to go with Japan sends a strong message about its preference for Japan over China in some critical areas of technology and financing.

#### *Strategic Aid*

Japan uses its ODA for engagement in some of India's other strategically sensitive areas as well. This includes Japan's involvement in developing a 15-megawatt diesel plant on South Andaman Island. Compared to the mega projects such as the DFC or bullet train, this project is small in both size and in budget, but 'its significance lies in the fact that India, for the first time, allows another country to develop infrastructure in these strategically important islands which host an Indian Tri-Service Command' (Maini 2016). Andaman's strategic location northwest of the Straits of Malacca is significant; it is a choke point in the South China Sea routes on which China, like Japan and others, depends for international trade. The significance of Japan's involvement in this strategic area sends another message that India has forgotten, or at least does not hold onto Japan's brutal history of military activity in this

location during World War 2, as noted before. Discussions are even under way to resuscitate the Japanese World War 2 bunkers in the islands to increase India's security.<sup>35</sup>

Another example of strategic aid is where New Delhi has 'invited' Tokyo to help develop India's frontier regions in the northeast Indian border-states of Mizoram, Assam and Meghalaya. This is to help India build its own version of China's One Belt One Road (OBOR), albeit on a much smaller scale. Japan began to invest in this project in 2014. Japan's foreign minister, Fumio Kishida also claimed in 2015 that Japan recognized India's sovereignty over the state of Arunachal Pradesh, over which China also claims sovereignty. Better road/rail connectivity will enable the Indian army to deploy more forces and move supplies quickly from other areas to the Northeast border area. Because of the region's strategic significance, the involvement of foreign powers in development projects will remain limited, and perhaps completely out of bounds for Chinese investors. Japan is currently the only country India has accepted to partner in critical development projects in the Northeast region. Roads developed in this region will also provide connectivity to India's neighboring states in South and Southeast Asia, such as Bangladesh and Myanmar. Here we see how Japan's past vision of Asia that constructed India as part of the Southeast Asian region is returning, albeit now through a different form of connectivity.

Aid for strategic purposes is thus becoming a norm under Japan's current ODA thinking. Japan now deploys ODA to serve Japan's national interests, including explicitly its security interests, but articulated in official validation of contributing proactively to peace through the new Development Cooperation Charter adopted in 2015 (Jain 2014; Kitaoka 2016; Jain 2016b).<sup>36</sup> Proactive contribution to peace is interpreted in a broader context than before though, and now includes provision of dual-use equipment, technology and facilities such as surveillance boats to maritime nations like Vietnam and the Philippines, capacity-

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<sup>35</sup> <http://timesofindia.indiatimes.com/india/Japanese-war-bunkers-to-be-revived-in-the-Andamans/articleshow/49570473.cms>

<sup>36</sup> Note the previous two charters were called ODA charters.

building assistance to Indonesia, Malaysia and Myanmar, and the construction of ports in Vietnam and Myanmar. Such support is considered necessary to maintain regional peace and stability, the rule of law, and maritime sovereignty.<sup>37</sup> Thus, Japan's India engagement through ODA is also moving into the realm of territorial and sovereignty issues, as is clear from the cases discussed above.

*The Changing Domestic, Regional and Global Environment Propelling India–Japan Ties in the 21st Century*

Japan's resumption of ODA to India in 2001, and its rapid increase since that time has occurred in the context of geo-political and strategic transition in the region – a transition in which India is seen as a critical strategic player. Multiple factors affect the geo-political landscape in which Japan–India relations are situated, but perhaps the most preeminent is the rise of China. The gradual assertiveness in regional matters now accompanying China's economic strength disturbs the status quo, and causes alarm among some in the region (parts 3 and 4 of Mukherjee and Yazaki 2016; Jain 2007b; Horimoto 2015a, 112-118). China's close relations with North Korea and Pakistan are of concern to Japan and India respectively. Both nations also share concerns about China's military activity and brinkmanship; despite their strong economic ties with that country. The regional context therefore now provides strategic reasons for Japan and India to rediscover and re-engage with each other by rekindling their past connections and emphasizing their shared interests in democracy, freedom, human rights and the rule of law, and declaring themselves to be 'natural partners'.

Also, providing reasons for re-connection between Japan and India is the regional political economy scenario within which Japan stagnates, and its economic links with China weaken, offering a positive outlook for Japan to further develop economic relations with

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<sup>37</sup> Interview in the international Cooperation Bureau, Ministry of Foreign Affairs, Tokyo, 14 June 2016.

India.<sup>38</sup> New Delhi has also reoriented its foreign policy outlook with closer ties to the US, while also reaching out to its Asian neighbors (beyond its past focus on South Asia). India expresses this strategic disposition through its earlier Look East and later Act East policy, introduced under the Modi government in 2014. And India's economic appeal and newly developed foreign policy orientation has attracted Japan as never before. The combination of goodwill and friendly relations from the early postwar period, and India's current appeal in the context of Japan's domestic and regional environment, has strengthened the relationship substantially. And as this paper confirms, one almost unbroken link in this bilateral chain over the past 60 years has been Japan's ODA to India, now on its strongest trajectory ever in the background of the nations' converging strategic interests.

The new chapter in the relationship began with the visit to India of Prime Minister Yoshiro Mori in 2000, in the shadow of the nuclear fallout of 1998, and with the freeze still intact on Japan's ODA to India. Mori's visit was a diplomatic icebreaker, heralding a new beginning in bilateral conversations with the official symbolic declaration of a 'global partnership' between the two nations.<sup>39</sup> After Mori's visit, top-level bilateral political and official contacts began to mushroom, and have continued to proliferate (Jain 2008; Horimoto 2015a, 107). Prime Minister Koizumi's visit to India in 2005 accelerated the process, with Indian and Japanese prime ministers meeting annually since then, and alternating between Tokyo and New Delhi.

However, these renewed links need to be assessed in the context of the new politico-economic and strategic environment that began to unfold at the turn of the century as Japan–

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<sup>38</sup> So far though Japanese investors have focused more on Southeast Asian nations than on India. <https://www.bloomberg.com/news/articles/2016-05-30/southeast-asia-is-winning-more-japanese-investment-than-china>

<sup>39</sup> What led Prime Minister Mori to visit India in 2000 is a topic of interest in itself. Then Japanese Ambassador to India, Hiroshi Hirabayashi, claims it was he who persuaded Mori to visit India 'as there was an urgent need to put behind us the strained relations after India's nuclear tests. The visit was necessary to bring our bilateral relations on a new, higher dimension, not only for the promotion of our bilateral relations, but also for the benefit of the rest of Asia and the international community at large' (Hirabayashi 2002, 26).

China relations deteriorated. As in the early postwar period, India has again become important strategically for Japan, including being an important connector to Southeast Asian countries. India's naval strength in the Indian Ocean and its Look East and Act East Policy have given India a prominent place in Southeast Asia, economically as well as politico-strategically. Horimoto (2015b, 1) has rightly dubbed the relationship from the start of the new century as 'Japan-India rapprochement,' involving 'a second honeymoon period of incomparably greater depth and breadth than the first one shortly after World War II'.

A former Indian ambassador to Japan, Aftab Seth, offers a more qualified view, claiming that even during the first few years of the new century the relationship was less than cordial. He notes that there was, within both MOFA and among politicians, a resistance to developing closer relations with India, while consistent negativity prevailed among key policymakers. These negative dispositions served as hurdles to establishing a closer, more solid political relationship (Seth 2015,105). But by the time Prime Minister Koizumi visited India in 2005 in the shadow of North Korea's first nuclear test, and Japan's deteriorating relationship with China, the response from Japan had changed. The term 'strategic' was added to the official bilateral statement made in 2000 on the two nations' global partnership. For example, 'Towards India-Japan Strategic and Global Partnership', was adopted when Indian Prime Minister Singh visited Tokyo in 2006, and 'On the Roadmap for New Dimensions to the Strategic and Global Partnership between Japan and India', when Prime Minister Abe visited India in 2007, heightening the relationship trajectory (Jain 2007a). On Prime Minister Singh's visit to Tokyo in 2008, the declaration was called 'Advancement of the Strategic and Global Partnership between India and Japan'. In the same year, Japan signed a security cooperation agreement with India similar to that signed a year earlier with Australia; the first security agreement Japan had signed outside the Japan-US security treaty in close to 60 years (Jain 2009). In 2014, on the visit to Japan of India's new prime minister, the Modi-Abe declaration upped the strategic ante even further to 'Special Strategic and

Global Partnership'. The 2015 declaration when Abe visited India was called 'Japan and India Vision 2025 Special Strategic and Global Partnership: Working Together for Peace and Prosperity of the Indo-Pacific Region and the World'. Undoubtedly, the narrative of 'strategic' has come to dominate the language of this bilateral relationship over the past decade.

In the context of official declarations on the Japan–India strategic partnership, ties at government level have strengthened in each of the three areas of politics, diplomacy and defence. A two-plus-two framework involving the top foreign affairs and defence officials of the two countries is one such example. While Japan has similar mechanisms with countries like the US and Australia, India has established this channel only with Japan. Indian and Japanese defence personnel are involved in joint exercises both bilaterally (JIMEX), and multilaterally (Malabar exercises), and Japan has upgraded its defence presence in New Delhi by adding two more military attaches to its embassy staff who will represent all three arms of the Self Defence Force. This has made India the fifth country, following the U.S., China, South Korea and Russia, where all three arms of the Self Defence Forces (SDF) have embassy representation, and reflects the importance of India in Japan's current security and strategic calculations. Their bilateral defence cooperation has also been escalated substantially through interactions between their defence ministers, maritime exercises, information sharing, and periodic dialogues between high-ranking officials.

The return of Shinzo Abe as prime minister in 2012 brought a significant boost to Japan's relations with India, and the relationship has further accelerated since 2014 with Narendra Modi as India's prime minister. Even while he served as chief minister of Gujarat state, Modi had established close links with Japan, and with Abe in particular; their political chemistry works superbly (Jain 2016a). Recognition by both sides of their mutual need to strengthen and deepen bilateral ties is thus stronger than ever. Japan's ODA today, as in the

past, continues to serve as a significant cog in the wheel of bilateral relationships. Now, however, it is a cog with unprecedented strategic significance for this relationship.

## **5. Concluding Observations**

Japan's ODA to India, as to elsewhere, has generally been analyzed primarily from political economy perspectives (Tsuji 2002; Varma 2009). This paper has acknowledged the importance of the economic and commercial orientation of Japan's aid to India through the links of ODA to trade and investment. Further, appreciating the regional and international context of the shifts in the nature of Japan's ODA projects in India, alongside the dramatic increases in the amount of ODA, this paper has explored the strategic dimension at work in the relationship between the two countries. Although the two nations have somewhat different strategic expectations, both have been strategically driven in their mutual giving and receiving of aid.

In the immediate postwar period, Japan recognized India strategically for its capacity to help connect Japan into Asia, and into the comity of nations globally, after its humiliating defeat and postwar regional isolation. At the same time, a newly independent India supported Japan as part of its conviction to promote solidarity among Asian nations, a task for which it regarded Japan's assistance as an important nation to engage with in pursuing its worldview. But their somewhat conflicting interests in global affairs broadened dramatically when cold war divides set in place a new geostrategic arrangement globally, especially from the early 1960s. This geostrategic transformation shifted their strategic perception of each other, leading to a drift apart that continued even beyond the end of the cold war in the early 1990s. A trajectory of low-key interactions through the nineties often faced frustrations and disappointments, including a short-lived breakdown in the relationship in 1998. These developments set the stage for bilateral relations with a new, stronger strategic orientation,

which is evident not just in political and defence relations but also, now unambiguously, in the bilateral ODA program.

With the dawn of the new century and a changing regional strategic landscape, together with shifts in domestic circumstance in both nations, Japan–India relations began to blossom. Since 2005 they have moved from strength to strength. ODA has played a critical role in the narrative of the two nations’ ‘strategic partnership.’ Their convergence on global and regional issues together with the interests they share are expressed most tangibly in their ODA relationship. Tokyo has not only invested in India’s infrastructure projects such as the Delhi Metro, DMIC and the DFC, but has also committed aid money to projects that clearly have defence and security implications, making Japan’s aid with India and in general more strategic than ever before. Driven by the changes in Japan’s aid policy reflected in its 2015 Development Cooperation Charter, Tokyo does not hesitate to allocate its aid money towards a ‘pro-active contribution to peace’ and ‘capacity building’ for defence and security purposes (Jain 2016b).

Japan now finds in India an important partner helping to meet its strategic objectives. In return, India is willing to include Japan in its security-sensitive projects, such as those in the Andamans and India’s northeast, conveying the message of ‘trust’ that India has for Japan. The strategic trust that India and Japan have developed for each other is also reflected at broader levels through opinion polls. While old resentments in Asia are deep and still linger between Japan and China, and between India and Pakistan, Japan and India view each other positively, as recent Pew survey results indicate.<sup>40</sup> Finally, the latest MOFA survey in 2016 found that, for the people of Japan, India is ‘the second most-friendly nation after the United States.’<sup>41</sup>

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<sup>40</sup> <http://www.economist.com/blogs/graphicdetail/2015/09/daily-chart-14>  
<http://www.pewglobal.org/2016/09/13/hostile-neighbors-china-vs-japan/>

<sup>41</sup> <http://www.garbagenews.net/archives/2002040.html>

Japan's aid served as a great bilateral link with India even when their overall relationship was low-key. While the relationship is strong today, it is not certain that aid will remain an effective instrument of engagement for Japan, as India's economy surges ahead, and New Delhi itself becomes a sizeable aid donor (Shiga 2013). Thus, Tuke has argued that while India might 'appreciate' Japan's ODA, its effectiveness as a foreign policy tool is debatable (Tuke 2011, 226). In Japan, too, questions are now raised about whether India will continue to appreciate Japan's aid into the future, or may instead move towards a path like that of China, where Japan's aid was not successful as a diplomatic instrument, and Beijing hardly acknowledges Japan's major contribution to China's economy through its huge bilateral aid program.<sup>42</sup>

Drawing parallels between India and China is not the right approach to trying to understand where relations with India may or ideally should lead though, given the trajectory of Japan's relations with China and India. Today India–Japan relations overall stand on ground that is much more solid than in the cool-off period from the sixties until virtually the end of the 20<sup>th</sup> century. The contemporary relationship is therefore unlikely to repeat the earlier story of mutual strategic attraction followed by turning away from each other. The current mutual attractions in the relationship are qualitatively different from, and stronger than, those in the early postwar years. The two national governments have institutionalized their relationship through an annual summit between their prime ministers, and a two-plus-two framework, to broaden their ties beyond ODA into the realms of defence, security, and the sharing of ideas and institutions. Moreover, India and Japan now see themselves as global partners working towards the reform of global institutions such as the United Nations.

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<sup>42</sup> A JICA official raised this question about India's future view of Japan's aid in a seminar the author gave at the JICA Research Institute (RI) in July 2016. Although Japan phased out its ODA loans to China in 2008, China remained number 2 on a cumulative basis until 2015, with Indonesia at number 1 and India at number 3. Data obtained from MOFA's International Cooperation Bureau, Tokyo, June 2016.

Yet for all that they share, even today India and Japan have somewhat different expectations of each other, much like in the early postwar period. Japan today looks at India more through strategic and defence prisms, and supports India economically through aid. While India looks at Japan from economic and technology perspectives, including the development of nuclear and defence technology, areas where Japan has expressed hesitation about forming partnerships. Other issues too will challenge the partnership, such as nuclear and defence cooperation, and perhaps their views of relationships with China, Russia and the United States. For the time being, however, the relationship has come full circle, with Japan's aid to India serving as an important vehicle for the partnership to take hold and expand. As in the past, the two may have expectations about each other that are not fully consistent, but unlike the past, the current convergence of their interests is much stronger than any divergence between them.

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## Abstract (in Japanese)

### 要約

本論文は、日本のインドに対する政府開発援助（ODA）が、日本とインドの外交関係においてどのような戦略的重要性を持っていたかについて検討することを目的とする。

日本の対インド ODA は、1960 年代前半に活発化し、その後の停滞期を経て、2000 年代半ばから再び活発化した。そしてこの二つの時期（twin peaks）は、日本とインドの外交関係が良好となって活発化した時期と一致する。ODA 供与の二つのピークと両国の外交関係の改善・活発化の時期が一致しているのは、日本がインドのみならずアジア諸国全体との関係強化や新たな関係の構築を欲している意図を明確に発信するうえで、対インド ODA が極めて有効な戦略的手段であったことに起因する。

1950 年代末から 60 年代にかけて、日本は援助と貿易・投資を一体化させながらアジア諸国との経済関係強化を模索していたが、インドは他のアジア諸国に先駆けて円借款を受領し、日本との経済関係の深化への期待を表明した。これは日本にとっては、インドがアジア諸国への重要な足掛かりとなったことを意味した。また 2000 年代半ばには、日本は ODA の増額を通じて、経済力を伸長させたインドとの関係強化を図り、中国の政治的・経済的台頭に起因するアジアの地域秩序の変化に共同して積極的に対処していく姿勢を示した。

今後、日印両国は利害関係の共有を基盤とした戦略的パートナーシップの関係をますます深めていくことが予想され、ODA は引き続きその重要な手段となると考えられる。