

ISAS Special Report

No. 47 – 13 November 2017

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



ISAS-KIEP Joint Symposium

“India, Japan and South Korea: Political and Economic Cooperation”

Amresh Gunasingham¹

Indian Prime Minister Narendra Modi has sought to strengthen the country's political and economic cooperation with Japan and South Korea in the light of his 'Act East' initiative. Similarly, the two countries are also making efforts to enhance their relationship with India in various sectors such as infrastructure, maritime security and manufacturing. The Institute of South Asian Studies organised a symposium on “India, Japan and Korea: Political and Economic Cooperation”, in partnership with the Korea Institute of Economic Policy, on 25 September 2017. Speakers from the academia, corporate sector and business organisations in Singapore, Japan and South Korea addressed a number of important questions relating to economic and infrastructure cooperation, regional maritime security, investment in India, foreign aid and the relevance of India to Japan and South Korea.

¹ Mr Amresh Gunasingham was an Intern at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS), from April to October 2017. He can be contacted at amreshg@hotmail.com. The author bears full responsibility for the facts cited and opinions expressed in this paper.

Introduction

On 25 September 2017, the Institute of South Asian Studies (ISAS), Singapore, organised a symposium, in association with the Korea Institute of Economic Policy (KIEP), on “India, Japan and Korea: Political and Economic Cooperation”. Professor Subratra Mitra, Director and Visiting Research Professor, ISAS, delivered the introductory remarks and opened the forum, which comprised two panel discussions. The two sessions were chaired, respectively, by Dr Iftekhar Chowdhury, Principal Research Fellow, ISAS, and Dr Dipinder Randhawa, Senior Research Fellow, ISAS. The public forum comprised diplomats, ISAS research staff and members of the public.

India and South Korea

The three speakers for the first session were Dr Choongjae Cho, Research Fellow, South Asia Team, KIEP; Mr Samyuel Park, General Manager and Team Leader, General Affairs Team, Hyundai Motor Company; and Dr Sojin Shin, Visiting Research Fellow, ISAS. They were subsequently joined by Mr T M Kumar, Advocate for Hyundai Motor India, during the Question and Answer session.

Dr Cho noted that, with the election of Indian Prime Minister Narendra Modi in 2014, “Modinomics”, which represents a whole range of economic reforms pursued by the prime minister that are business friendly, had emerged in India. Pointing to Modi’s economic achievements as Chief Minister of Gujarat, where the State’s gross domestic product more than tripled during his tenure, it was observed that regulations and infrastructure spending in India were shifting toward attracting greater private investment, boosting employment and consumption. Although trade relations between India and South Korea have been upgraded recently – there were over 850 Korean companies operating in India, mainly in New Delhi and Chennai – South Korea’s exports and investments into India has stagnated since the peak of 2011. South Korea led foreign direct investment into India in the mid-90s, but had since been outpaced by Japan and China. Dr Cho opined that the newly-elected government in South Korea needed to respond to “Modinomics” more aggressively, and revive the stagnant bilateral relations between the two countries. One area of cooperation, he highlighted, was in

the building of smart cities with manufacturing capabilities, with South Korea lending its expertise to scale up such smart cities across India fairly quickly.

During the second presentation, Mr Park addressed Hyundai's success in breaking in to India's automobile industry. The company was the second largest automobile manufacturer and largest car exporter based in India. The key reasons for setting up shop in India were the country's vast population, where forecasts suggest only 167 of every 100,000 people drove a car; a rising trend of vehicle ownership; and India's projected economic growth which presented tremendous opportunities for the car maker. Hyundai's business strategy in India encompassed four key areas: direct investment; research and development; supply chain management; and marketing and sales, and employee relations. The first foray by Hyundai into India in the mid-90s occurred at a time when foreign investments into the country were tightly regulated. While wanting to directly set up and own a subsidiary in India, the Indian government tried to enter Hyundai into a joint venture with an Indian partner. The company, however, stuck to the belief that decision-making and operations would be more efficient without taking on partners. To win approval, it came up with the extraordinary gesture of committing to source more than 70 percent of car parts from within India. A complementary benefit was an already skilled local workforce and available infrastructure. Chennai, for example, already had a developed automobile industry.

In managing the supply chain, Mr Park noted that procurement and supply of the 20,000 parts that went into a car was vital within the automobile industry. Hyundai was faced with a lack of viable local suppliers that met the required quality standards as well as high tariffs imposed by the Indian government on importing the necessary parts from abroad. Faced with these challenges, the company opted to collaborate with a network of Korean partners who themselves set up plants within India, in close vicinity to Hyundai's plants, which cut down on logistical costs. Employee relations – getting the “emotional buy-in” from workers – were another key ingredient in its success.

Dr Shin spoke on South Korea's increasing role as a foreign aid donor to the South Asian region, which was the second largest recipient of development aid after sub-Saharan Africa. Although the country only transformed from aid recipient to donor in 1987, it had made great strides since as an aid donor, partly due to the advocacy of non-state actors such as non-

governmental organisations which have helped to transform the government's attitudes to aid donations. South Korea first began disbursing aid to South Asia in the late 1980s and this picked up in the mid-2000s after the Indian Ocean tsunami in 2004 and the 2005 earthquake in Pakistan. The government adopts a comparative advantage framework in aid disbursement, focusing on projects such as education, social infrastructure and vocation training, where it believed it could make the greatest impact. According to Dr Shin, this strategy was contrasted to Japan, another substantial donor to India, which was more strategic and national interest seeking in its aid disbursement. Japan primarily chose to fund economic projects, in contrast to Korea's highly complementary and less strategic goals.

The interactive session drew some candid questions from the audience. These included the viability of electric cars being manufactured and sold in India, Hyundai's ability to overcome the "culture gap" in attitudes towards work and connect with its Indian workers to achieve success and whether South Korea was any less strategic to its neighbour Japan in the area of aid disbursement. It was explained that the demand for electric vehicles in India was still not viable, despite the pollution levels seen in major cities such as New Delhi, which had pushed regulators to clamp down on polluting cars. On worker relations, an anecdote was shared on Hyundai's problems in India in 1997, amidst tensions between the management and workers. It took 10 years and a deft handling of labour relations, and an untangling a top-down company culture often the norm in Korean companies. The key to the turnaround included being sensitive and reasonable to the needs of the workers. On South Korea's strategic goals as a development aid donor, it was reported that South Korea was still playing catch-up to Japan's dominant position as the largest regional foreign aid donor. Yet, South Korea's approach to aid disbursement at present responded to the needs of recipients, in contrast to Japan's focus on promoting its own economic interests.

India and Japan

The second panel focussed on the challenges and opportunities for political and economic cooperation between India and Japan. Vice Admiral Hideaki Kaneda, Director and Special Research Advisor, The Okazaki Institute; Dr Satoru Nagao, Research Fellow, Japan Forum for Strategic Studies; Mr Eitaro Kojima, Deputy Managing Director, Economic Information

Division, Japan External Trade Organisation, Singapore; and Dr Rupakjyoti Borah, Visiting Research Fellow, ISAS, provided a range of perspectives during the session.

Vice Admiral Kaneda began his presentation by discussing the hot-button topic of maritime security in the South China Sea, noting China's hegemonic ambitions – which have been buffered by a strong build-up of Sino military and nuclear capacity in the neighbouring oceanic region. These developments, which were in addition to territorial expansions that continued to flout international laws, had caused friction between China and its neighbours in North and East Asia as well as the Indo-Pacific region. Some countries had taken to regional and international platforms to voice their concerns over the military build-up as well as territorial encroachments.

Dr Nagao then spoke on the imperatives for Japan to increase security linkages with India amidst the changing United States (US)-China power balance in the region. He argued for a new security framework within which Japan-India cooperation had an important role. To maintain the military balance and support a new security framework, Japan and India could cooperate in the East China Sea, Indo-China border and the Indian Ocean. The scope of this joint cooperation could even extend to countries in Southeast Asia, some of which had been in conflict with China regarding disputed territories in the South China Sea.

In his presentation, Mr Kojima commented on the prospects for trade and investment between Japan and India, noting that, while more Japanese companies had invested in India, particularly in the automobile sector, challenges abound, especially for small and medium enterprises. For example, several multinational corporations already existed in India and competition was fierce in many industries, posing a high barrier to entry for newcomers.

Dr Borah rounded off the panel discussion by focussing on infrastructure collaborations between Japan and India. He highlighted several ongoing examples, including the high speed bullet train between Mumbai and Ahmedabad and the Delhi Metro, which were primarily funded by Japanese development assistance and loans. A number of challenges to such cooperation were also discussed, including regulations in areas such as land acquisition, which varied from state to state in India. Infrastructure development with the help of overseas aid was also mooted as an avenue to equalise economic growth between states in India. He

then examined the possibility of collaborations between the countries in other parts of the developing world, including the Asia-Africa Growth Corridor. Although not an alternative to China's Belt and Road Initiative, the potential alliance of Japan and India could morph into an alternative discourse in infrastructure development. In the case of Africa, this cooperation would be symbiotic, with Japan leveraging on India's historical links to Africa, where Indian companies such as Airtel and Mahindra had made inroads, while Japanese firms had failed to do so with similar success. India would benefit from Japan's capital and technological knowhow under the umbrella of the "Partnership for High Quality Infrastructure" initiative, in which Japan had committed to building high quality infrastructure in developing regions.

The interactive session saw questions ranging from Japan's position on China's strategic objectives in the South China Sea to the reasons behind Japanese companies' investments in India being conservative in nature. The possibility of a military defence industrial complex between India and Japan where Japanese companies could engage in knowledge transfer in the defence sector was also raised. In response to the questions, the speakers explained that Japan saw cooperation with India and the US as an important counterbalance to China's growing military and economic capabilities in the South China Sea, particularly with evidence pointing to China developing nuclear storage facilities around the region. Since Japan had only recently lifted a decades-long policy to restrict overseas trade of technology knowhow and weapon parts in its defence industry, Japan, it was reiterated, is very much an "amateur" in handling negotiations on deep defence exportation, both at the business-to-business and government levels, meaning the process would take time to fine tune.

Conclusion

The half-day symposium explored aspects of economic and security cooperation between India and its East Asian neighbours – Japan and South Korea. A wide range of issues were discussed, including the interests and ambitions of key actors in the Indian Ocean and prospects for maritime cooperation to solve the collective problem of providing regional security. Other themes included the prospects for doing business in India as a foreign investor, the strategic underpinnings of development aid models and infrastructure collaborations between Japan and India.

In his concluding remarks, Professor Mitra spoke about the emergence of a new paradigm in international economics, which had been dominated since the end of the Second World War by Western-styled capitalism. With this being described as the Asian century, it remained to be seen if an Asian hegemonic economic power would emerge, from countries such as India, Japan and South Korea. He noted that the signs were promising, with the success of large Asian multinationals demonstrating that different models of capitalism were emerging. The strength of an Asia-centric paradigm lay in the ability to appreciate and overcome cultural differences to promote economic prosperity for all.

.