

Trading in Analog for Optical Fiber:

- The Future Direction of Japan-India Economic Relations -

Speech by Minister for Foreign Affairs of Japan, Ms. Yoriko Kawaguchi

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Good afternoon,

President Modi, Senior Vice President Mr. Kanwar, Additional Secretary General Mr. Kalra, distinguished guests and ladies and gentlemen,

I am delighted to be here with you today on this, my second official visit to India. I was last here in January of 2003 and it is a pleasure and an honor to have been invited back to this FICCI luncheon. One of the most important reasons for me to visit India again is that I am eager to fortify the economic relationship between Japan and India.

As you know, it was Prime Minister Yoshiro Mori's visit in 2000 through which we established a "global partnership" between our two countries. I visited last year in order to strengthen that partnership, and in the eighteen months since that time, Minister of State for Defense Shigeru Ishiba has visited, enhancing our relationship even further. And just yesterday, I agreed with External Affairs Minister, H.E. Natwar Singh to cooperate on the reform of the United Nations, including the mutual support

for each other's candidature for the permanent membership of the Security Council. While these developments represent a major step forward in our relationship, it is necessary that such strengthening not be limited to the realms of political and security issues, but also extend to economic ties. In Japan, interest in India as an economic business partner has grown remarkably in recent years. One of the developments that really jump-started this is, I believe, the news that Japan's Shinsei Bank installed a computing system developed here in India by the company i-flex Solutions, which was highly publicized as having been developed at one-tenth the cost and in one-third the time it would normally take for a new system for a bank.

It is with this heightened interest as background that I decided to visit India this summer, and I have to say that this summer looks to "heat up" even further with regard to Japan -India relations, as this month will also bring a number of visits of high-level figures responsible for economic affairs, including Minister of Economy, Trade and Industry Shoichi Nakagawa and Minister in charge of Information Technology Toshimitsu Motegi. With the Japan-India trade figures invariably lower than those for both India-China and India-Korea trade, and with exports to Japan accounting for a mere 4% of all of India's software exports, I am here to tell you that I am very eager to change this situation. We need to trade in this analog line connecting our countries for an optic fiber line, and I believe that

the timing is right and Japan is warmed up and ready to take on this topic.

I do think that the situation we are now facing in Japan-India economic relations is very much like that of two potential sweethearts, who are trying to get to know each other better and yet have a certain hesitation that comes with the fact that this other person, this potential sweetheart, is not a spitting image of themselves but rather a different, separate being with their own quirks and own way of doing things, and we're still in that stage where we want the other to do things as we would have them done.

Now with almost the entire world having turned to capitalism, we see the development of quite a bit of competition to lure foreign investment, with each country seeking to make itself more attractive to this foreign investment capital. On the investors' side, potential investors are scrutinizing this all quite carefully, every bit as discerningly as the actresses in the Indian movies when they screen their suitors' "love calls." Naturally, the Japanese investors are no exception to this. Now, if this is the situation in which India finds itself, the question then becomes what kind of message India should be sending to Japanese companies. One good litmus test that reflects the degree to which Japanese companies are making inroads into a place is the degree to which sushi is available in the invested country. For sushi to arrive at a customer still in its proper shape, there needs to be a well-established system of infrastructure, especially roads. Add to that the

need for a system for cold storage to keep the sushi fresh, which demands a stable supply of electricity. In both of these key areas transport and electricity - Japan has been undertaking significant economic cooperation with India, actively promoting improvements viewed by foreign corporations as enhancing the investing environment. Japan is delighted that our most visible contribution to the transport network, the Delhi Metro, has already become a symbol of the friendship between our countries, and we look forward to continuing economic cooperation in key areas such as these.

I would also like to point out that it is important not to keep your sweetheart waiting. Keeping your sweetheart waiting on account of permit and licensing procedures is not the best strategy to win her heart. I have heard a story that in one case, a Japanese company shipped some goods between states, and while the shipping itself took only two hours by air, the red tape involved in shipping the goods across state borders took no less than 150 days. Fortunately, the product involved in this case was not sushi, but if you really want to draw Japanese business, you have to have a system by which even sushi could arrive at a customer expeditiously, even when it is shipped across state borders. In particular, it is my understanding that India is not currently a single economic space. Every step forward towards that goal will make India that much more attractive as an investment candidate.

I understand that the efforts of the Indian Government have begun

bringing about a positive resolution to this situation since the liberalization of the economy in 1991. However, from a broader viewpoint, a question with implications for human history is whether India will be able to develop while raising the standard of living of its entire people with its functioning democracy. With that in mind, Japan is watching with keen interest the economic policies of the new Indian Government to see how it will balance the need of poverty alleviation with the economic growth that is forthcoming as a result of improved infrastructure, reforms in labor and tax law, and the promotion of privatization. Without question, success or failure in this challenge will have a clear and definite impact on India's economic relationship with Japan. It would be impossible to overstate the importance of the potential role Japan can play as an economic partner for India.

On the Indian side, it is often argued that Japanese companies are extremely cautious about starting up dealings with new business partners, that Japanese companies are extremely risk-averse, or that Japanese managers do not actively move to adopt new software systems. However, the Japanese are well aware that the ability of the Indians is outstanding and that the costs involved in developing new software here is very competitive. India's record to date is also well-known in Japan. It is not too much to say that we have now entered an age in which Japanese companies must make use of India's abundant abilities and form partnerships if Japan is to continue

to compete. Actually, there was a period earlier in which Japanese companies were extremely interested in India. That was in the 1980's, when the Japanese economy was booming and investment in India was picking up steam. Success stories such as Multi-Suzuki date their presence in India back to that era. However, what happened next was a case of unfortunate timing: just as India was liberalizing its economy and began to see the fruits of those efforts in the 1990s, the Japanese economy started to falter and the Asian currency crisis broke out in the late 1990s. The result was that Japanese investment abroad started to dry up and corporate internal IT development also became sluggish. Finally, the image of India went down in the mind of corporate Japan as a result of the nuclear testing of 1998 and the risks involved in investing in India had risen by the crisis with Pakistan of 2002.

However, our timing problems have been resolved and we are now approaching a turning point for Japan-India economic relations. The Japanese economy is on its way to recovery and Japanese companies' appetite for foreign investment appears to have been whetted again. With regard to India for example, there are already signs which portend stronger ties, with the pharmaceutical company Eizai, for example, recently deciding that it will start operations in Mumbai. Such examples are part of a general trend by Japanese corporations towards increased international investment.

In addition, with regard to the IT industry, new technology and new companies are springing up in Japan. What is particularly noteworthy is the advance of ubiquitous computing and other new technologies. Japan is ready. The issue, then, is whether India will join us as we move forward. At the same time, there is a very welcome happening in India of note. For the India Chem 2004 meeting being held in Mumbai in November, Japan has been designated a partner country. Also, this autumn, FICCI and the Japan Chamber of Commerce and Industry will be holding “Destination India” in Tokyo as an opportunity to attract Japanese companies to India. Now is the time for Japan and India to seize the opportunities presenting themselves and shift into concrete action. I believe that we have the potential to be world-class partners through efforts on both sides to get better acquainted, increase our genuine understanding, and show some ingenuity in how we communicate with each other. Based on this belief, at the Japan-India foreign ministers’ meeting with His Excellency Natwar Singh, I put forward a proposal that a joint study group be established in order to investigate measures by which we can strengthen our relationship, and we agreed to carry this out.

I feel very strongly that India has an enormous amount of appeal and magnetism. For instance, the service on Jet Air is exemplary. I would be pleased at the opportunity to help spread the word of this great appeal of

India and the magnetism of the Indian people to the Japanese people. I really hope that India gives more of a smile towards Japan. You may know that the Japanese are a people who place enormous importance on having the desire to leave others feeling satisfied. In fact with my own background in private industry, one of the first things I did when I became Foreign Minister was to remind my ministry of the need for customer satisfaction and being oriented to the needs of the customer. It was this reorientation that helped reinvent our thinking at the ministry.

Among Miguel de Cervantes' most famous sayings is, "Tell me what company you keep, and I'll tell you what you are." As we strengthen the company we keep with each other, we must work to help each other become even more appealing, undertaking practical actions as we move towards further enhancement of our economic relationship. Tell me, is this vision I have shared with you this afternoon nothing more than a Don Quixote-type dream? I think not - the day when we can proudly talk of our full-fledged economic partnership is not a dream, but a reality now in the making.

Thank you for your kind attention.

(Text ends)