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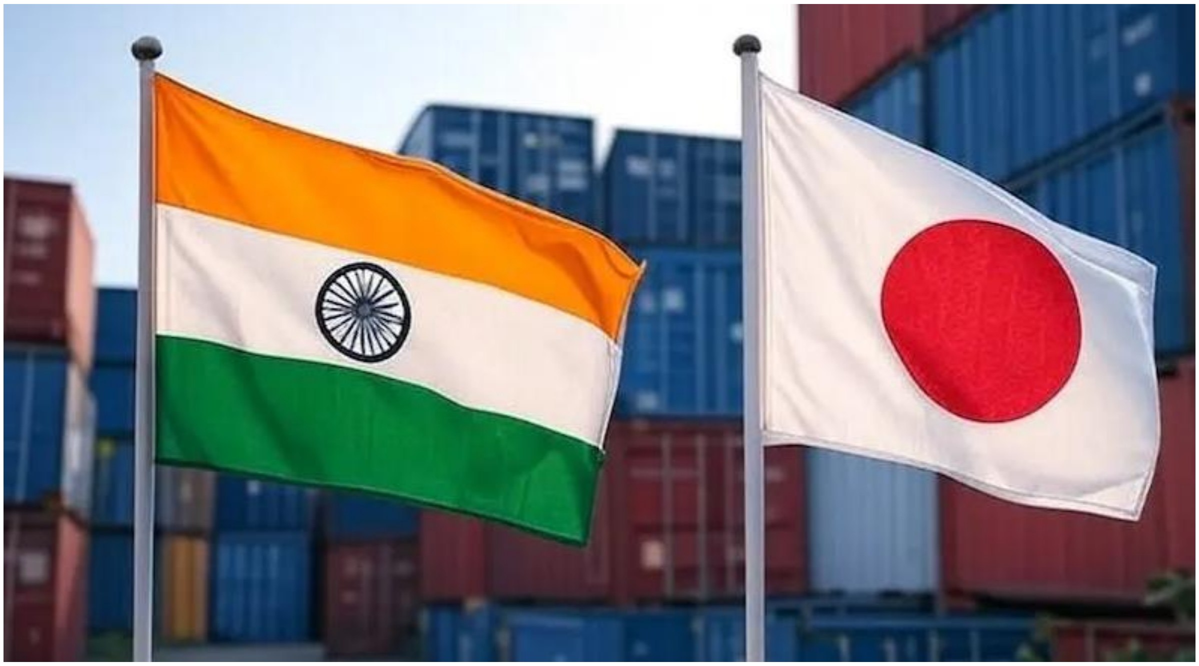

Japanese Investors' Strategic Shift To India From China And ASEAN, To Rein In Global Trade Tensions – Analysis

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By Subrata Majumder

China and ASEAN have always been the prime destinations for Japanese investment in Asia. But, there was a turnaround in the trajectory of investment destination with global trade tension intensifying. India emerged as the second biggest destination for Japanese investment in Asia, followed by China and ASEAN (except Singapore) in 2023 and 2024.

The seeds of a new era of overall India–Japan relations, including economic and political dynamism, were sown with the legacy of the Abe regime. The new era of India -Japan relations diversified from a mere bilateral economic relation to specific strategic relation, including defence and global partnership. The relation extended to a joint partnership for economic development in third countries, development of AAGC project (Asia Africa Growth Corridor), and the joint cooperation for development of Chabahar Port in Iran. The new era gave strong backbone to India-Japan special strategic and global partnership in political dynamism.

Giving strength to Shinzo Abe's policy for combating China's rise in power, followed by the COVID 19 pandemic, Japanese investment made a sharp downturn in China in the post Abe period. It fell from US$11,024 million in 2020 to US$3,305 million in 2024, leaving a big space for

India to attract Japanese investment. Eventually, Japanese investment in India surged five times more in the post Abe period, from US$ 1,570 million in 2020 to US$5,341 million in 2024.

In ASEAN, Japanese investment witnessed an erratic trend. ASEAN has been the favoured nation trade block for Japanese investors both in respect of investment climate and cultural heritages, including Japanese living styles.

The turnaround in Japanese investment in favour of India was despite the fact that India withdrew from RCEP (Regional Comprehensive Economic Partnership), where China and ASEAN are the major stake holders. RCEP is the second biggest trade block with concessional tariff in multi -trade between the member countries.

Why has India shined in Japanese investment, outpacing China and ASEAN?

Factors attributed to Japanese tilt towards India were big and fast growth in local market, spurring in the growth of export of service sector and increasing global protectionism.

In 2023-24, India emerged 5th largest economy, from 10th in the world in 2014-15. It demonstrates average growth in GDP by 6.5 a year during the decade, despite hindered by COVID 19 pandemic. The growth trajectory vies India's dream to be 3rd biggest economy by 2028, overtaking Germany and Japan, according to Morgan Stanley.

Growth in India was triggered by service sector. It accounted for 55 percent of GDP in 2023-24. The average growth in service sector was 8 percent in pre-pandemic and increased to 8.3 percent in post pandemic periods.

Service sector made a boom in exports. India ranks 7th the in the global service exports. It accounted for 4.3 percent in global exports in 2023-24, from 1.9 percent in 2005.

Service export is projected to excel merchandise exports by 2030. Given the global merchandise exports facing frequent tariff war and protectionism, service exports bid for more potential for sustainable growth. Unlike merchandise exports, which is limited by physical goods and supply chain constrains, service exports offer more flexibility and higher value added potential adaptability.

The unhindered growth in service sector as well as hike in exports of services leveraged higher potential for local demand market.

Given the sustainable growth in GDP, driven mainly by service sector, rural and semi-urban consumption spurred. The paradigm shift in the financial dynamism, such as expansion of banking facilities and rapid growth In digitization, evoked a new era of domestic demand.

According to a survey by JETRO, business conditions dampened in China and Thailand. In contrast, increase in local demand boosted business confidence India.

In the JETRO survey, India took lead with 80.3 percent of Japanese investors in India considering expansion. In contrast, business expansion intension declined in Thailand and hit a record low in China.

The survey revealed India as 3rd highest making profit for Japanese investors, followed by South Korea and Taiwan.
Local demand became the trigger for Japanese companies profitability in India. It has been forecasted that increase in local demand will be the pillar for profitability in 2025 for Japanese companies In India.

Eventually, the spur in automobile industry growth was led by local demand . Indian passenger vehicle industry, which is dominated by Japanese investment, is the 4th biggest manufacturer in the world. It's progress is tied with local demand. Over 90 percent of passenger vehicles produced in the country is sold in the country.
In summing up, the turnaround in Japanese investment in India underscores a significant change in the Japanese investment strategy. MOU with Rapidus Corporation, Japan in July 2023 for the manufacture of semiconductor chips is a significant move to cling a strong economic relation between India and Japan. It was formed with the backing of Japanese MNCs, like Sony, Toyota, Kioxia, NEC, NTT and MUFG Bank. At present, India does not have any plant for manufacture of semiconductor device.

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