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# OFFICIAL DEVELOPMENT ASSISTANCE TO INDIA WITH SPECIAL REFERENCE TO JAPAN

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## Abstract

The economic cooperation and interdependence among the countries is accomplished by trade, aid, and investment. Among these foreign aid plays a significant role in the socio-economic development of emerging and developing economies. The most common type of foreign aid is Official Development Assistance (ODA). It is granted to promote development and also to combat poverty. Since independence India had to draw on foreign investments to finance part of its economic development. Though the government has attempted to be as self-reliant as possible, the absolute amount of foreign aid to India has been high. In per capita terms, however, it has been much less than most other developing countries receive.

In last about two decades a number of positive changes e.g. Global Partnership Agreement 2000, Joint Statement towards India Japan Strategic Partnership 2006, Indo-Japan Friendship Year 2007, Comprehensive Partnership Agreement between India and Japan 2011 etc. in Indo-Japan economic relations have been observed. All these are exemplary in the history of Indo-Japan bilateral economic relations. In this backdrop, this paper throws light on the policies, trends, and pattern of foreign assistance from Japan to India. It also examines whether strengthening economic relations of two countries had any impact on the ODA from Japan.

**Key Words:** Foreign aid, ODA, Grant, Untied loan, Project aid, Global Partnership Agreement **JEL Codes:** F30, F35, F36,

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## 1.0 Introduction

The economic interdependence and cooperation among the countries is accomplished by three means, viz. trade, aid, and investment. These three forms ideally, must complement one another, and the closer the actual conditions approximate this ideal, the better would be the prospects for the emergence of a truly international economy. When these fell far short of the ideal, international economic relations become strained and distorted. Among these means, foreign aid plays a significant role in the socio-economic development of emerging and developing economies. It is logical as well as practical that with limited natural and human resources at disposal, the developing countries embarking upon economic planning, rummage around for economic assistance from the developed countries or the global financial institutions. In is important to mention here that the poor countries normally do not find themselves comfortable in raising funds on commercial terms; hence more often they depend on foreign aid.

Foreign aid though is a post World War II phenomenon,

also existed in ancient times. The Second World War is considered as a landmark in the evolution of the world economy because after World War II priorities of almost all the countries were changed and new regional alliances were emerged in the world. The nations found new bitter economic realities and hence they tied-up with friendship on the scale of loyalty and common interest. Motivating but confronting ideologies i.e. communism and capitalism were going parallel and the waves of integration of the world economy were also affected. In the nineteenth century, some private aid flowed from the Western countries to the rest of the world. Aid to missionary schools can be cited as an example. It is notable that the aid from governments in nineteenth and early twentieth century was tiny compared to present levels consisting mostly of occasional humanitarian crisis relief.

The Development Assistance Committee (DAC) of Organization for Economic Co-operation and Development (OECD) puts foreign aid into following three categories.

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- Official Development Assistance (ODA): Development aid provided to developing countries (on the "Part I" list) with the clear aim of economic development.
- Official Aid (OD): Development aid provided to developed countries (on the "Part II" list) and international organizations.
- Other Official Flows (OOF): Aid which does not fall into above two categories, either because it is not aimed at development or it consists of more than 75 percent loan rather than grant.

The most common type of foreign aid is Official Development Assistance (ODA). It is granted to promote development and to combat poverty. Official organizations and those scholars who are concerned with government policy issues frequently include only government-sourced aid in their aid figures, omitting aid from private sources. The most widely used measure of aid i.e. ODA compiled by the Development Assistance Committee (DAC) of the OECD is such a figure. The United Nations, the World Bank, and many scholars use the DAC's ODA figure as their main aid figure because it is easily available and reasonably consistently calculated over time and between countries. The DAC consists of 22 of the wealthiest Western industrialised countries and the EU. It is a forum in which they coordinate their aid policies. In the 1970s the international community through the United Nations, set 0.7 percent of a country's Gross National Income (GNI) as the benchmark for foreign aid. However, only a small number of countries (Denmark, Luxembourg, the Netherlands, Norway and Sweden) could reach that mark. The United States and Japan, though have been the world's largest donors, their levels of foreign aid have fallen significantly short of the UN's goal. ODA needs to contain the three elements: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; and (c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent).

The structure and scope of foreign aid can be traced from major developments following Second World War. These developments included (a) the implementation of the Marshal Plan, a US sponsored package to rehabilitate the economies of 17 western and southern European countries, and (b) the founding of significant international organizations including the United Nations (UN), International Monetary Fund (IMF), and the World Bank, now Known as International Bank for Reconstruction and Development (IBRD). These organizations have played a major role in allocating international funds, determining the qualifications for the receipt of aid, and assessing the impact of foreign aid.

During the 1970s and 1980s foreign aid from the Organization for Economic Co-operation and Development (OECD) countries to developing countries rose steadily. In 1991 Official Development Assistance (ODA) peaked at \$69 billion. In the 1990s, however, three events viz. fiscal problems in OECD countries, the end of the Cold War, and the dramatic growth in private capital flows to developing countries lowered the absolute and relative importance of foreign aid.

## **LITERATURE REVIEW**

Though there is lack of research work carried out in the field of Official Development Assistance received in India from Japan, even the researchers have tried to collect maximum researches and articles to enrich the present state of knowledge in the area. In pursuance of this philosophy, the reviewed studies are presented below.

Kawai Masahiro and Takagi Shinji (2001) and Sunaga Kazuo (2004) in their research papers discussed issues and possibilities of the future direction of Japan's official development assistance. The authors argued that Japan can meet domestic and international challenges by developing a coherent national strategy for ODA, broadly designed to enhance effectiveness, accountability and transparency. Jain Purnendra (2004) viewed that India by becoming number one destination of Japanese Yen loans, does not necessarily signal a close and intimate relationship between the two. China by far leads others in Asia in its relations with Japan. He stated

that a strong bilateral relationship in the future will not just be based on how much money a country doles out to another, but long-lasting friendly relations even in times of stresses and strains will be those whose foundations are based on solid ties at the grassroots and popular level. On this measure, China by far leads others in Asia in its relations with Japan.

Sagasti Francisco (2005) examined background for the emergence of ODA as a key feature of the international development landscape during the last half century. He mentioned that in the coming decades ODA should be viewed as a complement and catalyst for other external flows and for domestic resource mobilization. The report of International Development Centre of Japan (2004) and the Report of India Japan Joint Study Group (2006) evaluated Japan's ODA policies for India. It also presented review of Indo-Japan economic and commercial relations covering various aspects of trade in goods, trade in services, investment inflows, role of Japanese ODA and other aspects of economic cooperation in promoting economic partnership.

Kamiya Setsuko (2007) stated that Japan has used its ODA not only to help developing countries to pursue sustainable socioeconomic development programme, but also to combat global issues such as poverty, pollution and infectious diseases, and to promote peace. Rajmohan PG et al. (2008), Jain Purnendra (2008) and Kesavan KV (2010) took note of the critical changes that occurred between Indo-Japan economic relations. They mentioned that until recently, their interests were primarily limited to economic matters, like, development assistance and trade, but, today they are more diversified and cover a wide range of subjects, the salient ones being nuclear disarmament, maritime security, energy cooperation, climate change, counter terrorism, UN reforms and the regional community building.

## **NEED AND OBJECTIVES OF STUDY**

India is one of the most important nations in the developing world which has been receiving massive foreign assistance. As compared to other small aid recipients, India is placed in favourable position to

negotiate aid terms and patterns and in fact has been able to attract foreign assistance by and large within the framework of the tight system of planning, to help in achieving its own priorities and purposes without getting enmeshed in military alliances or impairing sovereignty. India was the first Asian country to receive Japanese economic assistance in 1958. It was the time when South-East Asian countries were grappling with the vexing question of war reparations from Japan. If we look at Japanese assistance after mid eighties, the total amount of soft loans provided by Japan to developing countries have decreased considerably, but the loans to India by contrast have increased substantially.

In last about two decades a number of positive changes e.g. Global Partnership Agreement 2000, Joint Statement towards India Japan Strategic Partnership 2006, Indo-Japan Friendship Year 2007, Comprehensive Partnership Agreement between India and Japan 2011 etc. in Indo-Japan economic relations have been observed. All these are exemplary in the history of Indo-Japan bilateral economic relations. In this backdrop, the researchers feel that it is the right time to look in to the policies, trends, and pattern of foreign assistance from Japan to India, and to know whether strengthening economic relations of two countries had any impact on the ODA from Japan.

## **RESEARCH METHODOLOGY**

The study is based on secondary data. The data sources include Economic Survey of India, official websites of Ministry of Foreign Affairs (MOFA) Japan, Ministry of Finance, Govt. of India, RBI reports, books, journals and bulletins. The study considers time series data pertaining to ODA from Japan for a period from 1990-91 to 2010-11. To make findings of the study more accurate, scientific and logical the collected data is analysed using appropriate statistical tools, such as regression and tests of significance etc. available in SPSS 17.0.

## **INDIA-JAPAN RELATIONS: AN OVERVIEW**

The exchange between Japan and India is said to have begun in the sixth century AD, when Buddhism was

introduced to Japan via the Korean Peninsula. Subsequently, Buddhist priests from India went to Japan, where they spread the Buddhist teachings. Indian culture, filtered through Buddhism, has had a great impact on Japanese culture and thought, and this is the source of the Japanese people's sense of closeness with India. Direct exchange, however, began only in the Meiji era (1868-1912), when Japan embarked on the process of modernization. From then on, bilateral relations developed around Japanese purchases of cotton. During World War II the Indian nationalist Subhash Chandra Bose, who advocated armed struggle to end the United Kingdom's colonial rule, joined forces with Japan. Taking over leadership of the Indian National Army in 1943, he and the INA participated in the Imphal Campaign in 1944. In 1949 Mr. Jawaharlal Nehru the then Prime Minister of India donated an Indian elephant to the Ueno Zoo, in Tokyo. This brought a ray of light into the lives of the Japanese, who still had not recovered from Japan's World War II defeat. The elephant, named Indira after Nehru's daughter, died of old age in August 1983. Her death was widely covered in the Japanese press and was mourned by many. India did not join other non-communist countries in signing the San Francisco Peace Treaty with Japan in September 1951. Instead, it signed a separate peace treaty with Japan in June 1952, which was one of the first treaties Japan signed as an independent country after World War II. India's friendship with Japan after the war helped a great deal when Japan returned to the international arena.

Ever since diplomatic relations between Japan and India were established in 1952 the two countries have enjoyed cordial relations based on trade, economic and technical cooperation. In the post-war period the focus of Japan's economic relations with India switched from the pre-war import of cotton to the import of iron ore. Relations developed steadily as Japan's imports of ore and exports of manufactured products increased. Following Japanese Prime Minister Nobusuke Kishi's visit to India in 1957, yen loans to India began in 1958. In August 1958, the World Bank organized the Aid-to-India Consortium consisting of the World Bank Group and thirteen countries, viz., Austria, Belgium, Britain, Canada, Denmark, the Federal Republic of Germany (West Germany at that time), France, Italy, Japan, the

Netherlands, Norway, Sweden, and the United States. Japan as a member participated in the Meeting and embarked on the full-scale assistance to India that has continued to the present. Since fiscal 1986 Japan has been India's largest aid donor.

The Aid-to-India consortium was formed to coordinate aid and establish priorities among India's major sources of foreign assistance and to simplify India's requests for aid based on its plans for development. The consortium aid was bilateral government-to-government aid from the thirteen consortium countries, and almost all of the aid, including that from the World Bank Group, was for specific projects judged to be valuable contributions to India's development. Of Rs. 630 billion in aids authorized by all aid donors between FY 1974 and FY 1989, more than 60 percent was provided by the consortium. Among countries not in the World Bank consortium, the Soviet Union was the most important contributor that provided more than 16 percent of all aid between FY 1947 and FY 1988. Since 1991, however, Russia has provided only a little aid.

Thus, Japan has been extending financial assistance for India's development programme since 1958. Japanese aid to India initially was channelized through the government owned Export-Import Bank of Japan (J-EXIM). During 1975-76, aid was channelized through the Overseas Economic Cooperation Fund (OECF) of Japan, and from 1976-77 onwards, both project and commodity aid was being channelized through the OECF. With effect from 1st October 1999, J-EXIM and OECF have merged and the resulting new agency, Japan Bank for International Cooperation (JBIC) has become the channel for both ODA operations as well as for the international economic operations function of the Government of Japan. Presently, Japanese ODA loan assistance to India is received through JBIC and the grant aid and Technical Cooperation (TC) is received through Japan International Cooperation Agency (JICA).

Industrialization process began in India after the late 1950s and to fulfil the demand of intense development activity, increased reliance on foreign resources became virtually inevitable. In the beginning India received very small aid from the rest of the world and international monetary agencies like World Bank and IMF. In the



economic history of India five-year planning scenario is mainly responsible for foreign aid. Government of India had to request for the foreign aid for the completion of the five years targets and the volume of foreign aid increased with the introduction of every five-year plan. It has been a major source for financing major infrastructure projects, projects in the social sector and building up institutional capacity.

At the beginning of the 21st century, Japan and India resolved to take their bilateral relationship to a qualitatively new level. Both the countries realized that the current international situation, characterized by interdependence and the advent of globalization, offers fresh opportunities to both Japan and India for enhanced engagement for mutual benefit. The foundation for this was laid when Mr. Yoshiro Mori, and Mr. Atal Bihari Vajpayee, the then Prime Minister of Japan and India agreed during the Japanese Prime Minister's landmark visit to India in August 2000 to establish the "Global Partnership in the 21st Century". The official visit of Indian Prime Minister Dr. Man Mohan Singh to Japan during December 13-16, 2006 at the invitation of the then Prime Minister of Japan, Mr. Shinzo Abe marked upturn in India-Japan relations. During the visit, the two Prime Ministers launched the "India-Japan Friendship Year 2007" and attended the inaugural event of the Festival of India in Japan on December 14, 2006. They also signed A Joint Statement – "Towards India Japan Strategic and Global Partnership".

In 2007, both governments held "Japan-India Exchange Year 2007" to commemorate the 50th anniversary of the Cultural Agreement. In October 2008, Japan and India signed a Joint Statement on the Advancement of the Strategic and Global Partnership between Japan and India and a Joint Declaration on "Security Cooperation between Japan and India". This marked only the third time India confirmed a security pact with another country, following the United States and Australia. Japan and India finally signed the much-awaited "Comprehensive Economic Partnership Agreement" on 16th February 2011 that would abolish duties on more than 90 percent of trade for 10 years. Most recently in December 2011, Japanese Prime Minister Mr. Noda had a summit meeting with Indian Prime Minister Dr. Singh

in Delhi. After the meeting, the two Prime Ministers signed a Joint Statement titled, "Vision for the Enhancement of Japan-India Strategic and Global Partnership upon entering the year of 60th Anniversary of the Establishment of Diplomatic Relations".

In nutshell, the interactions since 2000 have entered a new phase with the two countries coming together to build a global partnership. Systematic efforts made by the leaders of both countries since then have deepened and strengthened this partnership. Until recently, their interests were primarily limited to economic matters like development assistance and trade, but today they are more diversified and cover a wide range of subjects, the salient ones being nuclear disarmament, maritime security, energy cooperation, climate change, counter terrorism, UN reforms and regional community building.

## **OFFICIAL DEVELOPMENT ASSISTANCE: POLICYMAKING**

### **INDIA'S POLICY REGARDING ODA**

External assistance plays more of a supportive role in financing major infrastructure projects, social sector projects and in building up the institutional capacity. Accordingly, the policy on external assistance has been recast to affirm this changing role of external assistance and to emphasize the reform orientation in India's economic policy.

India has reviewed its policy of bilateral development co-operation in January 2006. As per the extant policy, Government of India does not accept aid in areas where it has substantial control. While bilateral aid is accepted only from G-8 countries, the Russian Federation and the EC, tied aid is not accepted at all. Channelization of external assistance from smaller partners (other than those mentioned above), is only through multilateral organizations to promote greater aid harmonization. Further, all countries can provide bilateral development assistance directly to autonomous institutions, universities, NGOs, etc through a simplified procedure.

India also welcomes bilateral assistance in form of technical assistance that aims at enhancement of

knowledge and skills of Indian nationals. Bilateral development assistance can also be received by the Government, if the assistance is routed through or co-financed with a multilateral agency and the proposed programme/ project is to be implemented by the multilateral agency under its own rules and procedures. Such arrangements should be evolved between the participating multilateral and bilateral agencies as part of their policies. The co-financed programmes or projects are governed by the procedures applicable to the multilateral agency spearheading the programme/ project.

India has embarked upon a journey of accelerated development and growth. ODA from Japan appears better suited for physical infrastructure. This can also act as prelude to Japanese FDI in infrastructure. India requires enormous investment in infrastructure sector to compete internationally in today's rapidly globalizing world, and to sustain high domestic economic growth. A Committee on Infrastructure has been constituted under the chairmanship of the Prime Minister to focus on the 'Infrastructure Deficit' and to remedy it in a time-bound manner. The Committee has estimated an investment requirement of Rs. 1,720 billion in the Highway sector alone by 2012.

A scheme of financing viable infrastructure projects through a Special Purpose Vehicle (SPV) has been finalized for the sectors which include (a) Roads and bridges, railways, seaports, airports, inland waterways and other transportation projects, (b) Urban transport, water supply, sewage, solid waste management and other physical infrastructure in urban areas, (c) Gas pipelines Infrastructure projects in Special Economic Zones, and (d) International convention centres and other tourism infrastructure projects.

### **JAPAN'S POLICY REGARDING ODA**

Japan's ODA policy can be regarded as one of the main pillars of Japan's foreign policy in the post war era. The prototype of Japan's ODA could be found in the form of its reparations to Asian countries. Starting in 1954 in accordance with Article 14 of the Peace Treaty of San

Francisco, Japan signed reparation treaties with Burma, South Vietnam, the Philippines and Indonesia, which laid down reparations in the form of the provision of products and services despite their strong demands for reparation in monetary terms. In 1960s, it became one of the nine member countries of the Development Assistance Group, which was reconstituted as the Development Assistance Committee (DAC) in the fall of 1961. It was widely believed that Japan's foreign aid was commercially motivated in the 1950s and 1960s. The overwhelmingly commercially self-serving approach, however, changed in the 1970s with the outbreak of the oil crises.

In 1992 the Japanese government issued an "ODA Charter", setting forth the principles: (a) concern for the environment (b) avoidance of military use of ODA (c) attention to ODA recipients' military expenditure and development of weapons of mass destruction (d) attention to the promotion of democracy, market economy, and basic human rights. The aid program now is characterized by a number of perceived goals, including political and security interests, and the desire for prestige and acceptance in the international community.

Japan's ODA consists of three parts: the grant aid, technical assistance and yen loan (governmental loan), each with a different policymaking structure. Grant aid imposes no obligation of repayment on the recipient countries. Ministry of Foreign Affairs (MOFA) exercises considerable influence over the provision of grants. Technical assistance consists of training, dispatchment of the Japan Overseas Volunteers under Japan International Cooperation Agency (JICA), and provision of certain types of technical equipment usually used in training. Yen loans are extended on the premise that the principal will be repaid with interest. Interest rates are pegged below commercial rates according to the development level of the recipient. The policymaking system of yen loan generally calls for Four-Ministry System, which includes Ministry of Foreign Affairs (MOFA), Ministry of Economy, Trade and Industry (METI), Ministry of Finance (MOF) and Economic Planning Agency (EPA). Based on the

decision of these government ministries, an overwhelming proportion of bilateral assistance is administered by the MOFA and implemented by JICA and Japan Bank for International Cooperation (JBIC).

The Government of Japan has undertaken a serious review of its ODA Policy. The outcomes of this exercise are two epoch-making documents, namely Japan's ODA Charter (which was approved by the Japanese Cabinet in August, 2003) and Japan's Medium-Term Policy on ODA (adopted in February 2005). The ODA Charter clearly defines the objective of Japan's ODA which are to contribute to the peace and development of the developing countries and thereby to help/ ensure Japan's own security and prosperity. The Charter also identifies four priority issues of Poverty Reduction, Sustainable Growth, Addressing Global Issues like global warming and infectious diseases, and Peace-building. The Charter also refers to the importance of the perspective of Human Security.

The Charter and the Mid-Term Policy reiterate that the most important philosophy of Japan's ODA is to support the self-help efforts of developing countries based on good governance, by extending cooperation for their human resource development, institution building including development of legal systems, and economic and social infrastructure development. Accordingly, Japan respects the ownership of developing countries, and places priorities on their development strategies. Japan believes that the goal of the development will be achieved in conjunction with the ownership of developing country and partnership of developed country. The Charter and the Mid-Term Policy also places an emphasis on formulation of Country Assistance Programs for the recipient countries which specify the direction, priority sectors, and priority issues of Japan's ODA for a period of about five years based on a clear understanding of the development needs of the recipient countries. Japan has an intention to address various global challenges to achieve MDGs, fight against terrorism, and consolidate the peace through contribution by ODA in specific policies.

ODA loan is a prevalent form of Japan's ODA to India claiming approximately 99 percent of the entire ODA.

The Japanese ODA loans to India are "Untied Loans" routed through Japan Bank for International Cooperation (JBIC). These loans are mostly project tied with an interest rate (applicable from April 2010) of 1.4 percent per annum for general projects with a 30 years tenure including a grace period of 10 years. For environmental projects, the interest rate is 0.65 percent per annum with a 40 years tenure including grace period of 10 years. From October 2007 onwards, in addition, a commitment charge of 0.1 percent is levied after 120 days of the signing of the loan agreement on the undisbursed loan. The Japan's Country Assistance Program for India, which was formulated in May 2006, identified the three priority areas for Japan's ODA to India. These included Promotion of Economic Growth, Poverty Reduction and Improvement of Environmental issues, and Expansion of Human Resources Development and Exchange.

## **TREND AND PATTERNS OF JAPAN'S ODA TO INDIA**

In view of paradigmatic shift in Indo-Japan bilateral economic relations in the last about two decades it becomes necessary to analyze trend and composition of ODA and to investigate as to whether the changes in Indo-Japan bilateral economic relations e.g. signing of Global Partnership Agreement in 2000, Joint Statement towards India Japan Strategic Partnership in 2006, celebration Indo-Japan Friendship Year 2007, and signing of the Comprehensive Economic Partnership Agreement between India and Japan in 2011 had any impact on the ODA from Japan.

## **ODA LOANS**

Japan initiated its economic cooperation with India in 1958. The cooperation began by ODA Loan, which was the first ODA Japan had ever provided not only for India but for any country. ODA Loan has since been the prevalent form of Japan's ODA for India, claiming approximately 99 percent of the entire ODA. Table 1 shows India's total foreign loans and also the loans from Japan in post liberalization period.

**Table 1: Loans to India**

(US\$ Millions)

| Year    | India's Total Loans | Loans from Japan | Share of Japan (In Percent) | Change in Japan's Share (%) |
|---------|---------------------|------------------|-----------------------------|-----------------------------|
| 1990-91 | 4236.40             | 914.50           | 21.6                        | -                           |
| 1991-92 | 4766.00             | 986.70           | 20.7                        | 7.9                         |
| 1992-93 | 4275.70             | 1020.70          | 23.9                        | 3.4                         |
| 1993-94 | 3717.50             | 1168.30          | 31.4                        | 14.5                        |
| 1994-95 | 3958.20             | 1264.60          | 31.9                        | 8.2                         |
| 1995-96 | 3249.80             | 1314.60          | 40.5                        | 4.0                         |
| 1996-97 | 4000.40             | 1195.20          | 29.9                        | -9.1                        |
| 1997-98 | 4006.80             | 1083.30          | 27.04                       | -9.4                        |
| 1998-99 | 1979.20             | 90.60            | 4.6                         | -91.6                       |
| 1999-00 | 4091.40             | 0                | 0                           | -100.0                      |
| 2000-01 | 3769.30             | 784.10           | 20.8                        | 100.0                       |
| 2001-02 | 4438.70             | 421.30           | 9.5                         | -46.3                       |
| 2002-03 | 4183.50             | 1009.10          | 24.1                        | 139.5                       |
| 2003-04 | 3300.80             | 1005.30          | 30.5                        | -0.4                        |
| 2004-05 | 5212.20             | 1136.10          | 21.8                        | 13.0                        |
| 2005-06 | 3912.20             | 4150.10          | 106.1                       | 265.3                       |
| 2006-07 | 6209.80             | 1539.60          | 24.8                        | -62.9                       |
| 2007-08 | 7182.20             | 2043.40          | 28.5                        | 32.7                        |
| 2008-09 | 6183.20             | 2283.50          | 36.9                        | 11.8                        |
| 2009-10 | 10318.00            | 2349.70          | 22.8                        | 2.9                         |
| 2010-11 | 7870.10             | 561.50           | 7.1                         | -76.1                       |

Source: Economic survey, Government of India 2011-12

The data contained in the table reveal that India's total foreign loans and also the Japan's contribution during the period from 1990-91 to 2010-11 has been almost stable except in some years. Highest amount of Japanese loan to India (US\$ 4150.10 millions) was in the year 2005-06. In this year India and Japan signed Joint statement towards Indo-Japan Strategic and Global Partnership Agreement. India didn't get loans from Japan in the year 1999-2000 probably because India conducted nuclear test at Pokhran in this year. It is notable to see that throughout the period of study the Japan's share was not stable. Maximum positive change (265.3 percent) and maximum negative change (-100.0 percent) in Japan's

share is observed in the year 2005-06 and 1999-2000 respectively. In almost all the years Japan contributed more than one-fifth of India's total loans except in few years.

Japan approved eleven ODA Loan projects for India. Japan and India signed Exchange of Notes for in June 2011, in response to India's proposals presented in 2010-11. The total amount of commitment is approximately 203 billion yen. Major projects in 2010 (including those approved in June, 2011) were Yamuna Action Plan Project III (32,571 Million Yen), Dedicated Freight Corridor Project: Phase III (1,616, Million Yen), Andhra Pradesh Rural High Voltage Distribution System Project



(18,590 Million Yen), Bihar National Highway Improvement Project (22,903 Million Yen), Rajasthan Forestry and Biodiversity Project: Phase II (15,749 Million Yen), and Bangalore Metro Rail Project II (19,832 Million Yen). India has been the largest recipient of Japanese ODA Loan for the past several years. The cumulative amount of Japanese ODA Loan to India amounts to approximately 3,600 billion yen.

## GRANTS

Japan provides grant aid for India to meet its basic human needs that particularly focuses on health, one of key MDGs. Since Japan began extending grant aid to India in 1977, the total assistance provided till FY 2010-11 was 89.654 Billion Yen. Of this an amount of 1.16 Billion Yen was provided in the year 2010-11. Table 2 shows India's total grants and also the grants received from Japan since 1990-91.

Table 2: Grants to India  
(US\$ Millions)

| Year    | India's Total Grants | Grants from Japan | Share of Japan(In Percent) | Change in Japan's Share (%) |
|---------|----------------------|-------------------|----------------------------|-----------------------------|
| 1990-91 | 291.0                | 34.3              | 11.8                       | -                           |
| 1991-92 | 364.1                | 33.5              | 9.2                        | - 2.3                       |
| 1992-93 | 330.7                | 20.8              | 6.3                        | - 37.9                      |
| 1993-94 | 772.7                | 17.2              | 2.2                        | - 17.3                      |
| 1994-95 | 343.8                | 39.4              | 11.5                       | 129.1                       |
| 1995-96 | 399.0                | 61.1              | 15.3                       | 55.1                        |
| 1996-97 | 825.6                | 18.2              | 2.2                        | - 70.2                      |
| 1997-98 | 566.3                | 24.6              | 4.3                        | 35.2                        |
| 1998-99 | 49.9                 | 32.3              | 64.7                       | 31.30                       |
| 1999-00 | 604.4                | 1.3               | 0.2                        | - 95.98                     |
| 2000-01 | 206.3                | 2.2               | 1.1                        | 69.2                        |
| 2001-02 | 711.1                | 1.0               | 0.1                        | - 54.5                      |
| 2002-03 | 244.4                | 0.6               | 0.3                        | - 40.0                      |
| 2003-04 | 525.9                | 1.4               | 0.3                        | 133.3                       |
| 2004-05 | 703.7                | 1.8               | 0.3                        | 28.6                        |
| 2005-06 | 368.1                | 53.1              | 14.4                       | 2850.0                      |
| 2006-07 | 773.0                | 529.2             | 68.5                       | 896.6                       |
| 2007-08 | 1064.0               | 0                 | 0                          | - 100.0                     |
| 2008-09 | 271.6                | 0                 | 0                          | -                           |
| 2009-10 | 201.8                | 1.6               | 0.8                        | 100.0                       |
| 2010-11 | 336.9                | 9.2               | 2.7                        | 475.0                       |

Source: Economic survey, Government of India 2011-12

The table shows that of total grants received in India, share of Japan was 11.8 percent 10 1990-91, which has reduced to 2.7 percent only in the year 2010-11. This signifies that India now no more depends on assistance from Japan instead it wants that Indo-Japan relation should hovers around foreign direct investment and trade. The maximum share of Japanese grant (68.5 percent of total grant) was in the year 2006-07, and a negligible share (nil) was during the period from 2007 to 2009.

The Grant aid projects approved by Japan during 2010-11 include: (i) Project for Strengthening Electronic Media Production Centre at Indira Gandhi National Open University (IGNOU), a leading institution in developing and offering distance learning programs to the citizens of India (787 Million Yen). It helps in improving the Centre's educational materials and equipment. (ii) Project for the Eradication of Poliomyelitis (192 Million Yen). Since 1996 Japan has provided a total of approximately 8.2 Billion Yen in grant aid for the procurement of polio vaccine and necessary equipment through UNICEF. Japan's assistance has contributed to a significant reduction of wild polio cases in India from 5,881 in 1994 to 774 in 2009. (iii) The Grant Assistance for 20 Grass-Roots Projects totalling 169 Million Yen.

## **TECHNICAL COOPERATION**

Japan has continuously offering technical cooperation for India since 1958. However, following the policy change of the Government of India in 1978, the Japan Overseas Cooperation Volunteers (JOCV) was suspended in 1979. This was resumed gradually after an agreement in the Japan-India Joint Statement issued in April 2005. As of April 2011, 14 JOCVs work across the country. In 2009-10 Japan provided for India 1,855 Million Yen for its technical cooperation including development studies. The total amount of cooperation through FY 2009-10 was 29.351 Billion Yen, number of trainees received by Japan was 5,689, and 971 experts from Japan were sent to India. In 2010-11, two projects, namely "Information Network for Natural Disaster Mitigation and Recovery in India" and "Project for Research Partnership for the Application of Low Carbon

Technology for Sustainable Development," were initiated under the scheme of Science and Technology Cooperation on Global Issues.

In order to enhance the capacity of those who engage in manufacturing, the Visionary Leaders for Manufacturing Programme (VLFM) project offers four training courses in four areas: Visionary Heads of Manufacturing, Visionary Corporate Leaders for Manufacturing, Post Graduate Programme for Executives-Visionary Leaders for Manufacturing, and Visionary Small and Medium Enterprises. These courses are operated in collaboration with academia, private sector and the government, represented by IIT Kanpur and IIT Madras, Confederation of Indian Industry (CII), National Manufacturing Competitiveness Council (NMCC), and the Ministry of Human Resource Development (MRHD). Japanese companies also cooperate during the trainees' visit to Japan.

## **IMPACT OF GLOBAL PARTNERSHIP AGREEMENT ON ODA FROM JAPAN**

With a view to examine the impact of Indo-Japan Global Partnership Agreement (August 2000) on ODA from Japan, the researchers considered data for a period from 1990-1991 to 2010-11 collected from the Economic survey, Government of India (2011-12). Further, the data series under consideration is divided into two categories, (i) ODA received in ten years prior to signing of Global Partnership Agreement (from 1990-1991 to 1999-2000), and (ii) ODA received in eleven years after signing of agreement (from 2000-2001 to 2010-11).

The statistical tools used to check sensitivity of ODA received in India from Japan, the researchers applied regression analysis in pre and post agreement scenario, and for examining the impact of Indo-Japan Global Partnership Agreement on ODA from Japan 't' test of significance is used. To make study more accurate and scientific and to make the findings logical, the collected data is analyzed using appropriate statistical tools available in SPSS 17.0.

Table 4 : Results of Regression Analysis

| Particulars           | Constant | Coefficient | SE     | 't'    | Prob. |
|-----------------------|----------|-------------|--------|--------|-------|
| Total ODA             | 511.089  | -0.139      | 10.555 | -0.614 | 0.546 |
| Pre GPA               | 429.541  | 0.227       | 27.729 | 0.660  | 0.528 |
| Post GPA              | 194.163  | 0.290       | 29.974 | 0.909  | 0.387 |
| Total Loans           | 461.607  | -0.117      | 10.451 | -0.515 | 0.612 |
| Pre GPA               | 387.383  | 0.217       | 27.503 | 0.630  | 0.546 |
| Post GPA              | 173.834  | 0.276       | 30.138 | 0.860  | 0.412 |
| Grants                | 33.619   | -0.761      | 0.300  | -5.108 | 0.000 |
| Pre GPA               | 29.051   | -0.083      | 0.839  | -0.235 | 0.820 |
| Post GPA              | 5.888    | 0.075       | 0.511  | 0.226  | 0.826 |
| Technical Cooperation | 15.864   | 0.520       | 0.163  | 2.655  | 0.016 |
| Pre GPA               | 13.107   | 0.775       | 0.342  | 3.470  | 0.008 |
| Post GPA              | 14.441   | 0.691       | 0.413  | 2.871  | 0.018 |

Source: Own Calculations

The results of regression analysis shown in table 4 indicate clearly that at overall level there is not much difference in sensitivity of ODA received in India from Japan in pre and post Global Partnership Agreement period.

To testify the impact of Global Partnership Agreement on ODA received from Japan, the researchers framed null-

hypothesis as “By and large there is no significant impact of Global Partnership Agreement on ODA received from Japan”. To test the null hypothesis, the researchers applied 't' test on statistical data pertaining to ODA and its various components received in India from Japan at the 95 percent confidence level and 19 degree of freedom. The results of 't' test are contained in table 4.

Table 4 : Results of 't' test

| Variable              | 't'    | Prob. | Ho Accepted/<br>Failed to Accept |
|-----------------------|--------|-------|----------------------------------|
| ODA                   | 1.421  | 0.172 | Ho Accepted                      |
| Loans                 | 1.265  | 0.222 | Ho Accepted                      |
| Grants                | 7.775  | 0.000 | Ho Failed to Accept              |
| Technical Cooperation | -0.854 | 0.404 | Ho Accepted                      |

Source: Own Calculations

The results of 't' test applied on ODA show that there is no significant impact of Global Partnership Agreement on ODA received from Japan ( $p = 0.172$ , more than 0.05). The 't' statistics and their associated 'p' values in case of loans from Japan ( $p = 0.222$ ), and technical cooperation ( $p = 0.404$ ) also significant at 5 percent level of significance. It indicates that there no significant impact of Global Partnership Agreement on loans and technical cooperation from Japan. The hypothesis that "there is no significant impact of Global Partnership Agreement on Grants received from Japan", however is not true because the associated probability to the 't' statistics is 0.000 (less than 0.05). Thus, it can be concluded that there is significant impact of Global Partnership Agreement on grants and not on loans and technical cooperation.

## **REASONS FOR FLUCTUATIONS IN ODA FROM JAPAN**

Since Independence till 1990: The prolonged tensions between India and Pakistan marked by two major wars in 1965 and 1971 made the Japanese sceptical about long term economic involvement in the sub-continent. Further, Japanese government was not fully convinced about the stability of the political system in India. Frequent political changes at the centre, unpredictable centre-state relations, natural disasters, and other such factors added to Japanese scepticism. Another important reason was Japan's disenchantment with the economic policies pursued by successive Indian governments which laid a great emphasis on the role of the state. Japan on the other hand believed that the road to progress was along liberalisation and freeing the economy.

1991 to 2000: In 1991, when India faced a major financial crisis following the gulf war, Japan quickly extended the emergency loan of 30 billion Yen. In 1998, when India conducted nuclear test in Pokhran, Japan stopped ODA to India. It resumed ODA in October 2001 only after formal agreement on the Comprehensive Test Ban Treaty.

2001 to 2011: Japan increased aid in 2002-03 to win back India's heart after the nuclear test of 1998. In 2004 Japan made a policy decision by shifting its aid focus from

China to India. In 2005 Japanese Prime Minister Junichiro Koizumi during his visit to India announced Eight –Fold initiative between India and Japan to increase their economic and strategic interest which resulted in increased inflow of aid from Japan.

## **CONCLUSION**

With India's recent sustained economic growth, its technical prominence globally especially in the IT, telecom, and financial sector, its diplomatic activism as a key player in the group of 20 developing countries and its push to secure a place as a permanent member of the United Nations Security Council in the recent years, many countries are forced to sit up and take notice of India. Japan is no exception to it. By looking at the impressive performance, vast untapped and unexplored potential in India, and also the global economic and strategic condition, Japan started to realize that it would be well in favour for both the countries, Japan and India, if they start regional progressive economic cooperation. In this backdrop of the changing global image of India and the recognition for its competency, Japan has revived its economic relationship with India.

Recently, a new tide has been observed in Japan to expand Japan–India relations based on mutual complementarities, which gathers momentum under the strengthening of strategic and global partnership between the two countries. Looking at the large consumer market with the potential to increase profits for corporations, Japan is continuing to invest in India via FDI and the ODA to ensure the expansion of India's economy.

The study reveals that until the early 1990's Indo-Japan economic relations were revolving around the aid. But, after 1991 with progressive economic reforms, India's growing economy in the areas of GDP, forex reserves etc., trade and investment have become more important measures of its international economic ties than aid. The study finds that there is significant impact of Indo-Japan Global Partnership Agreement (August 2000) on grants and not on loans and technical cooperation.



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