

*Mohd Aminul Karim*

## **NATIONAL SECURITY: BANGLADESH AND GLOBAL PERSPECTIVES**

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### **Abstract**

The paper examines the present national and international geopolitical scenario from historical perspectives. The author attempts to show the relevance of different geopolitical concepts in the present day national and international politics that also impinge on the soft states like Bangladesh. Although political realism is the main grain of the paper, it, nonetheless, emphasises on the importance of soft power in managing the anarchical state of affairs of the world today. The paper purports to take one's attention to the strategies, like Multi-polarity, Reforming UN, Strengthening Regional Institutions, Resolving the Issues of Flashpoints, Multilateralism and Strengthening Normativity etc.

### **1. Introduction**

Individual, national and inter-state security architecture is conditioned by different sets of assumptions, environment, geography, geopolitics, geo-economics, values, threats and capabilities of actors concerned to meet the impending or perceived challenges. Individual security, within the framework of a nation state, covers both human security, embracing the hierarchy of needs that an individual would deserve depending on his social, academic and economic status, and physical security both from within and without. This can be extrapolated to cover national security which

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**Major General Mohd Aminul Karim**, ndc, Idmc, psc, Ph. D., is the Military Secretary to the Honourable President of Bangladesh. His e-mail address is: [mdaminulkarim@yahoo.com](mailto:mdaminulkarim@yahoo.com)

involves government policy having as its objectives the creation of national and international political conditions favourable to the protection and extension of its core values or vital national interests. It falls within the realm of political realism, power politics, geopolitics, geostrategy or even geo-economics. Human security for its citizens can not also be precluded from the charter of existence of a nation-state. It might then become a part of the core values of a nation.

Further extrapolation of the security milieu can be made in the form of international security, where geopolitics plays a more penetrating role, which lacks a sovereign entity, remains in an anarchical state and, therefore, it is always in a state of flux. Deterrence concept, which is generally an enigma, takes over and action-reaction cycle is activated resulting in huge arms race. This is typical political realism or power politics. An increase in one state's security decreases the security of others. However, such scenario can be tackled by cooperative strategies. So, merely having a national security strategy may not work; there has to be a paradigm shift to put emphasis on international security in order to prevent greater damage. On top of this hierarchy, the idea of global security, which is intricately linked to international security, may also be proposed. It proposes a common set of principles and practices that guarantee the security of all nations. It is a universalistic approach to security. It is little utopian in idea but not undoable. However, in view of the nature of human beings and the existence of anarchical inter-state or geopolitical architecture, such concepts may not fructify but one can always aim for it. Merely aiming may provide a cooling effect on the environment.

Now it may be pertinent to show the relation of terms like geopolitics, geostrategy and geo-economics. These terms are very much related to power politics or political realism; some even call them ego-politics. The hard fact is hard power, which is related to geopolitics and ultimately prevails. Nonetheless, soft power, which cascades the hard power, can not be ignored. America is paying very high price for having preponderance only in hard power in Iraq and Afghanistan. Lately, they have realized it and there is a tendency towards encapsulating soft power also. The combined effect of hard power and soft power, called smart power, is a better prescription. If

national security is taken as an independent variable, then geostrategy may be called a dependent variable where geography and geopolitics work as mediating variables. Geopolitics may be defined as, “the relation of international political power to the geographical setting”.<sup>1</sup> However, there is a change in the tone and tenor of the term like geopolitics. It may now be seen differently from geopolitik. Geopolitics now tends to be categorized as a policy science, i.e. they seek to explore the structure of policy problems without necessarily prescribing particular courses of policy action. However, the basic and original essence of geopolitics is consideration of size, shape, location, and characteristics of nations with respect to one another. History is replete with examples of location and terrain. Poland, a nation sandwiched between two great powers but without any natural lines of defence suffered repeated invasions. On the other hand, Switzerland, because of its Alpine location apart from other considerations, maintained its neutrality and remained untouched militarily during different major wars.

Geostrategy is a subfield of geopolitics. As is true to any strategy, geostrategy is concerned with matching means to ends. Geostrategy calls for proactive strategies and provides a nationalistic tinge to it. Geostrategy can be called the merger of strategic considerations with geopolitical factors. It involves planning, assigning means for achieving national goals or securing resources of military or political importance. Geostrategy is the dynamic science of statecraft which establishes the link between geography and strategy.

Now, let us see the relevance of geo-economics in this regard. One school of thought tends to see geopolitics as a decaying analytical field and focuses on geo-economics as the central theme in envisioning the new world as it “purports to place international politics on an economic basis”. There is no denying of the fact that state-to-state relations are greatly actuated by economic compulsions. So, there is a tendency to divide the world on an economic footing viz., the US-led North America, Europe and China or Japan-led Asia. This definitely reflects the reality. However, one

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<sup>1</sup> Cohen, S, *Geography and Politics in a Divided World*, Oxford University Press, New York, 1973, p.24

could be grossly wrong to assume that geopolitics and geoeconomics are mutually exclusive; rather they converge in this age of interdependent globalization. One would not be wrong to deduce that the tools like protectionism, subsidy, quota system, imposing tariff, non-tariff or para-tariff barriers are directly related to geoeconomics. In the long run, however, they fulfil the objectives of geopolitical ambition of a nation or a cluster of nations.

Given a broad understanding of different relations and their relevance, this paper attempts to explore the imperatives of international and national security, showing historical analogy, with emphasis on Bangladesh's security perspectives that fit into the overall scenario that would be broad but crosscutting and interactive. However, the paper would attempt to make the response realistic as seen from political realism as well as idealistic point of view.

## **2. An Overview of the Geopolitical Concepts in Different Periods and their Relevance**

To start with, Mackinder's "Theory of Heartland" that identified the core of the Eurasian continent, placing greater emphasis on Eastern Europe, impacted on the critical events of history. Napoleon's failed attempt in 1812 and, again, Hitler's failed attempt in 1941-44 had shown the unassailability of the Heartland. Mackinder had rightly identified the critical mass or the centre of gravity, i.e. Eastern Europe where he had foreseen the titanic struggle between Germany and Soviet Union in the Second World War. Mackinder had also apprehended the alliance between these two great land powers that would be critical to two sea powers, i.e. USA and UK, and in order to counter such development, Mackinder proposed a "Mid land Ocean" alliance consisting of UK and USA, which would be on the victorious side in the Second World War. His theory has been criticized because of putting too much emphasis on geographical features and not taking into consideration the deployment of long-range bombers and nuclear weapons that subsequently emerged.<sup>2</sup>

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<sup>2</sup> For details see, Geoffrey Sloan, "Sir Halford MacKinder: The Heartland Theory Then and Now," in Colin S. Gray and Geoffrey Sloan (eds.), *Geopolitics: Geography and Strategy*, Frank Cass, 1999, London, pp.15-38.

Almost during the same time Mahan in 1912, called for America to maintain a preponderant navy. He proposed an Anglo-American naval consortium, almost in line with Mackinder's "Midland Ocean" concept, as a basis for naval supremacy in the twentieth century and as a possible basis for the containment of an expansionist Russia.<sup>3</sup> Again the strategists feared the military threat posed by Germany. Following these scholars, another American scholar that used to emphasise geopolitics, Nicholas Spykman (1893-1943), comes in the scene with a modern version of Mahan's quest for a realist American foreign policy on the basis of sea power. He propounded the principles of balance of power in the Old World, i.e. the Eastern Hemisphere. He urged upon America to keep the Old World divided through an active foreign policy. The idea was to maintain a balance of power in the Old World through alliances with weaker states against potential hegemons. Spykman called for controlling the Rimland consisting of Middle East, South and Southeast Asia and deduced that 'he, who controls the Rimland, would control the destinies of the world'. He also identified Soviet Union as the most dangerous candidate for expansion. He identified England, Germany and Japan as possible American allies in the balance of power strategy.

Kennan, the American diplomat in the Soviet Union, prior to the out break of the Cold War, sent the message to his home government to operationalize a "long-term, patient but firm and vigilant containment of Russian expansionist tendencies".<sup>4</sup> This is famously known as the containment theory. The objective of the subsequent Cold War, fought between America and Soviet Union, was the containment of the Eurasian Power, i.e. Soviet Union. There is another way of looking at it. US strategies of containment since the Second World War have been largely aimed at the Rimland following Spykman's suggestion.

To put the above strategies in perspective what can be deduced is that their political and strategic objective was the Soviet Union who should not be allowed a free hand to shape up things in the Old

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<sup>3</sup> For details see, Jon Sumida, "Alfred Thayer Mahan, Geopolitician" in *Geopolitics, Geography and Strategy, op. cit.*, pp. 39-62.

<sup>4</sup> John O' Loughlin (ed.), *Dictionary of Geopolitics*, Greenwood Press, London, 1994, p. 133.

World and to ensure that Germany and Soviet Union do not get united. Ever since the Cold War, America has persistently remained focused in the 'Selection and Maintenance of Aim'. Soviet Union got badly defeated in the Cold War and eventually got disintegrated. However, Soviet Union's power potential and resolve could not be defeated. Soviet Military's entry into Afghanistan and President Reagan's launching of Star Wars were the precipitous events for the disintegration of the Soviet Union. As a follow-up to the above strategies, America launched the Truman Doctrine<sup>5</sup> along with the Marshall plan.

This resulted in the division of the world. The U.S. power established itself in the Eastern Mediterranean and backed reactionary, undemocratic regimes in Greece, Turkey and Iran. United States subsequently got involved in Korea, Vietnam, Lebanon, the Persian Gulf and Iran-Iraq War. Linked to Truman Doctrine, Marshall Plan was launched with the objective of simultaneously bolstering anti-communist political interests and open up Europe to U.S. capital. According to Truman, the Truman Doctrine and the Marshall Plan are "two halves of the same walnut". The reconstruction of Germany was the core objective of the Marshall Plan which would work as a vital ally against the USSR to the east. The plan broadly succeeded in reconstructing European infrastructure and in integrating U.S. capital into Western Europe. It is also called the precursor to the European Economic Community.

Such an array of American geopolitical doctrines was met by world socialist society under the leadership of Soviet Union. What was surmised was that the sovereignty of individual socialist countries could not be counter posed to the interest of world socialism and the world revolutionary movement. World socialism, as a system, was indivisible and its defence was the responsibility of all communists. Leonid Brezhnev, whose ideas later came to be known as Brezhnev Doctrine, appeared more militant than the Chinese in intervening in Africa, Asia and Latin America to disrupt the capitalist order in the 1970s. However, Brezhnev played safe in

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<sup>5</sup> For details, see, Gear'oid O' Tuathail, Simon Dalby and Paul Routledge, *The Geopolitics Reader*, Routledge, London, 1998, pp. 58-60.

Middle East, which falls within the realm of shatter belt theory,<sup>6</sup> where there was strong possibility of direct confrontation with the United States. The other spectrum of the Brezhnev Doctrine was putting down the Czech ambitions for independence in 1968 by the Red Army. It was proclaimed, as foreseen by Mackinder in his Heartland Theory, that the Soviet control of Eastern Europe was irreversible.<sup>7</sup>

Over here again the United States played safe since any disturbance in the Eastern Europe might predicate a general war. From a complete isolationist foreign policy in the Old World, America started stretching itself especially after the Second World War. America was badly mauled in the Vietnam War. Nixon Administration, therefore, started restructuring American foreign policy which came to be known as Nixon or Guam Doctrine. It felt the necessity for a Post-Vietnam retrenchment of American power from regional centres of power and accept *detente* implying reality of super power parity. It was acknowledged that either power was more than capable of completely destroying the other. One of the important fallouts of this Doctrine was the loss of Iran. Iran has now turned out to be Achilles' heel for the Americans. However, Reagan Doctrine, somewhat overshadowing the Nixon Doctrine played tough on the Russians. And it paid dividends in disintegrating the Soviet Union as already highlighted.

When American power was, somewhat decaying, Henry Kissinger played the fine game of diplomacy in order to create a wedge between the two great powers of the world. From 1969 to 1975, he extended the olive branch of *detente* to the Soviet, and rapprochement with China. He has been the architect behind the negotiated settlement to the Vietnam War and the break-up of Soviet-Egyptian friendship after the Yom Kippur War of 1973. In 1972, he won over China that was, among others, was designed to

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<sup>6</sup> Middle East has always been a region of strategic importance as it connects Eurasia and Africa. Middle East is a Shatter belt where maritime realm meets the continental realm; it is caught between colliding external political forces.

<sup>7</sup> For details see, Gear'oid O' Tuathail, Simon Dalby and Paul Routledge, *op. cit.*, pp. 74-77.

reduce Soviet military pressure on West Europe. His balance of power game, thus, was superbly played.

Now some of the pertinent questions that can be raised are: what are the ground realities today? Is America, once again, overstretching? Are Russia, the successor state to the Soviet Union, and China again waking up? Are there enough reasons to believe that there are symptoms for another round of Cold War? How are the new alignments or power centres shaping up? Can we still see the application of Mackinder's Heartland theory, Spykman's, Shatter belt theory and Nixon Doctrine? How would the smaller countries, like Bangladesh, fit into such complex environment? How are the activities of the non-state actors impinging on the viability of the nation-states? Following is an attempt at exploring these and related questions.

### **3. The Present Day Context**

The present day context is overwhelmed by the application of President Bush's 'Doctrine of Pre-emption' which gives America the *carte blanche* to attack any country, anytime and anywhere if it is considered a perceived threat, even without consulting the allies. The right of pre-emptive attacks runs counter to Article 5 of the UN Charter which provides one with the right to act in self-defence in case there is an actual attack; attacking proactively is not visualized. The Doctrine also calls for market based economic system apart from utilizing IMF and World Bank for furthering US goals. Getting control of the strategic energy resources, ensuring security of Israel, which has not honoured a single UN resolution, to eliminate the terrorists, especially the Al-Qaeda, and in a way encircle or engage Russia and China by courting allies around, following probably Spykman's suggestion, are some of the strategic objectives of America today.

America spends around US\$500 billion in defence which is more than next fifteen country's defence budget put together. America is already active in the strategic backyard of Russia by being involved militarily in Afghanistan, in Central Asia and in Pakistan. America has been seriously thinking, as reported in the press, of taking military action against Iran, for its alleged involvement in

nuclearization. This may push Iran to the embrace of Russia. America is planning to install radar stations or anti-missile defence system in Poland and Czechoslovakia which fall in the strategic backyard of Russia as, Heartland theory would suggest. The idea has been strongly resented by Russia who as a backlash has operationalized its strategic bomber aircraft patrol flights over the Pacific, Atlantic, Arctic Oceans, as well as Black Sea, suspended since the end of the Cold War, and showing its resolve to further refine and upgrade its missile capabilities. Russia's Navy has also resumed its military presence in the Mediterranean Sea and the Atlantic Ocean.

Militarily, America has got deeply entrenched in Iraq with unpredictable consequences. It is virtually impossible to predict how the war in Iraq would end and what would be its consequence for Iraq, the US and its allies in the region and elsewhere. America entered the country on wrong pretexts which have been accepted by most of the Americans. As a matter of fact terrorist activities have multiplied after the Americans entered Iraq and real democracy, as it seems, is a far cry in Iraq. The sympathy that was generated after 9/11 for America got evaporated after what America has done in Iraq. Terrorists have got further emboldened and they are in the process of regrouping in Afghanistan and Pakistan. The injustice done to the people of Palestine by Israel is being used by the terrorists as the *raison d'être* for the multiplication of terrorism. Islam does not harbour terrorism or fanaticism. However, there are elements who misinterpret the tenets of Islam. Islam, however, does permit asking for justice for the right cause which is true in case of the followers of other faiths as well. Now, herein the geopolitical concept, given by Huntington, of 'clash of civilization' finds its relevance.

Huntington observes that the fault lines between civilizations are replacing the political and ideological boundaries of the Cold War as the flashpoints for crisis and bloodshed. Iron curtain has been replaced by velvet curtain of culture. Conflict along the fault line between Western and Islamic civilizations has been going on for 1300 years. And this would, as Huntington suggests, continue in the foreseeable future. The next world war, if there is one, will be a war

between civilizations which finds relevance to President Bush's recent statement made in respect of Iran.

Now, such developments call for serious scrutiny. If the fault lines between religions are intermingled with the geopolitical ambitions of the nations, then things might take a very complicated turn. The world would find it extremely difficult to wriggle out of this complexity. The suggestion would be: religious overtones should be minimized by the concerned powers in pursuit of their geopolitical objectives in the international arena. A question, however, may be asked: are the Americans deliberately propelling it to serve their national interests? Or, it is just a coincidence that the fields where they are operating to advance their geopolitical ambitions fall in the territories of the Islamic world like, Afghanistan, Central Asia, Pakistan, Iran, Iraq, Syria, Lebanon and Palestine. Interestingly, if developments in Iran, Balkans, Central Asia, Afghanistan, Poland and Czechoslovakia are judged from different perspective, then it points to the fact that America is trying to encircle Russia and when Japan, India, Australia are taken into consideration then it appears America is trying to encircle China. And there is no denying of the fact that both the powers are reasserting themselves to get a central place in world affairs. Russian Foreign Minister says emphatically, "Our partners should understand in our history we are going through a stage of inner concentration needed for another rise of the country".<sup>8</sup> Fareed Zakaria's comments about the rise of China are clear cut, "The much heralded advent of China as a global power is no longer a forecast but a reality. On issue after issue, China has become the second most important country in the planet. From North Korea to Darfur to Iran, China has been slowly showing that it wants to be a responsible "stakeholder" in the international system".<sup>9</sup>

Now, America is embroiled in the Middle East, falls part of the Shatter belt theory, in the Eastern Europe and Central Asia that points to the Heartland Theory, and in the Asia Pacific that can be

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<sup>8</sup> Sargey Lavrov, "The Foreign Policy of Russia: A New Phase", *Russian Digest*, December 2007, Vol. 3, Embassy of the Russian Federation in the People's Republic of Bangladesh, p.7.

<sup>9</sup> Fareed Zakaria, "The Rise of a Fierce yet Fragile Superpower", *Newsweek*, December 31, 2007/ January 7, 2008.

called part of Rimland theory propounded by Spykman. US State Department declared Western African oil a “strategic national interest”. The US National Intelligence Council (NIC) predicts, Gulf of Guinea will supply 20-25% of total US imports by 2020. America is, reportedly, considering opening a separate military command in Africa. Both Huntington and Paul Kennedy have called these “imperial overstretch” by America. Can America really manage so many fronts together all by itself, since America is finding difficulties in sustaining committed allies except Great Britain? It is, reportedly, known that NATO troops are reluctant to go for offensive actions against the Taliban in Afghanistan. As a consequence America is beefing up the combat forces in Afghanistan. In all likelihood, America should have taken some kind of military action against Iran, given the rhetoric coming from the Americans. By now, the Russians and the Chinese have got involved in Iran. They have developed certain stakes in that country. Is it because of the Russians and the Chinese that America is giving a second thought regarding military action against Iran, while giving diplomacy a chance?

Again the Chinese and the Russians have formed a geopolitical entity called Shanghai Cooperation Organization (SCO) presumably to offset the American influence in Central Asia. Americans, as reported, had to abandon some of their military projects in Central Asia. America is building its military armada in the Indian Ocean and Pacific Ocean in collaboration with Japan, India and Australia to probably checkmate the Chinese in the Asia Pacific. Recent naval exercise in the Bay of Bengal, close to the Andaman, consisting of ships coming from the US, India, Australia, and Singapore is a testimony to such a strategy. America is likely to get militarily involved along with Japan, in case China tries to unify Taiwan through military means. Again, China would not compromise on this sensitive issue, even if it has to use its military wherewithal. It is learnt that America is planning to develop a conglomerate of hundreds of naval ships in the Pacific. Apparently America is again applying Spykman’s suggestions’ to keep the Old World divided.

America is, no doubt, called a sole superpower. People, at times, even brand it as hyper power. Brzezinski makes a forecast that America would continue to be the sole superpower in this Century also. Fareed Zakaria also holds similar view. But both Huntington

and Paul Kennedy think America may come down in its ranking. America is, no doubt, overstretching. Its economy is in recession. Its image has been badly tarnished. Chu Shulong, a highly regarded specialist on the United States writes, "The U.S. is not in decline. Its basic conditions are healthy and dynamic". Yet Chu adds an important caveat: the "U.S. has lost its prestige or soft power".<sup>10</sup> It is tackling too many objectives at a time including the non-state actors in every nook and corner of the world. "... the rest of the world has looked on and seen the most powerful nation in human history acting like a caged animal, lashing out at any and every constraint on its actions".<sup>11</sup> It has already sunk over US\$500 billions in Iraq war without any tangible result as yet.<sup>12</sup> Madeline Albright, comparing the Vietnam and the Iraq wars, aptly noted, "America's strength has become an encumbrance".<sup>13</sup>

According to a projection by the renowned Wall Street firm Goldman Sachs, China's economy is likely to be larger than the US economy by 2041.<sup>14</sup> Both the powers are upgrading their military and are having extensive military cooperation that range from technology transfer to combined forces exercise. America, however, might exploit the contradictions that exist between Russia and China as it did in 1972 when Kissinger played the subtle diplomatic game to win over China. It carries sense since Russia, as yet, has not transferred its most formidable arms to China.

Be that as it may, both Russia and China are posing certain degree of threats to America's interests. Every thing may not go unchallenged as it has been going on since the end of the Cold War.

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<sup>10</sup> Quoted in Minxin Pei, "An Unlikely New Ally", *Newsweek*, Special Edition, Special Issues, 2008.

<sup>11</sup> Fareed Zakaria, "The Fearful Superpower", *Newsweek*, Special Edition Issues, 2008.

<sup>12</sup> See, The War in Iraq Costs, URL: [http://www.nationalpriorities.org/costofwar\\_home](http://www.nationalpriorities.org/costofwar_home) accessed March 15, 2008.

<sup>13</sup> Quoted in, Sargey Lavrov, *op. cit.*, p.8.

<sup>14</sup> Goldman Sachs, Global Economic Paper No.134: *How Solid are the BRICS*, URL: [http://www2.goldmansachs.com/hkchina/insight/research/pdf/BRICS\\_3\\_12-1-05.pdf](http://www2.goldmansachs.com/hkchina/insight/research/pdf/BRICS_3_12-1-05.pdf) accessed March 13, 2008

From the military point of view, America has to maintain a very long line of communication to sustain itself in another hemisphere. From the same perspective, both Russia and China have an inherent advantage. America has the advantage of the alliance of Japan, Australia, India, South Korea and it has also recently wooed over Germany and France to its side. Again if Shanghai Cooperation Organization grows stronger and more integrated then things may not bode well for America.

Now, therefore, a pertinent question may be raised: will America resort to Nixon type Doctrine as it did after the Vietnam War? Rumours are agog that America is looking for an exit strategy from Iraq although certain quarters totally negate such a possibility. But the moot point is: it is extremely difficult and expensive to sustain such a huge military machine, in a fighting mode, for such prolonged period of time in a distant land. It is even difficult to sustain the motivation and morale of the troops which would be true to any military. America is fighting a fleeting enemy (the non-state actors) which is, according to military parlance, ten times more risky and costlier. It is true both for Iraq and Afghanistan. At the moment things are looking little better in Iraq but such war has its own dynamics and cycle which might go haywire again anytime.

Given the realities in the ground and economy, obviously under strain, America will have to go for outsourcing somewhat similar to what was stipulated in the Nixon Doctrine. America will have to look for allies to sustain its war effort. However, allies are available generally for logistics and moral support but asking for sacrificing soldiers, for a cause not directly protecting one's own interest, is a difficult proposition. America has won over Germany and France especially few years after the outbreak of Iraq War, but their direct contribution in military operations anywhere in the world, if it does not entail their national interests, may be discounted. However, America will have to depend on EU for many reasons, including taking care of European security in collaboration with NATO. It may have to outsource to India to take care of South Asia and in an implied way to checkmate China. America is having alliance relationship with Japan, with America taking the sword and Japan the shield, to, again, contain China. Here, the Australian inputs are also relevant. In the Middle East, America had earlier neutralized

Egypt, Jordan, Saudi Arabia and other Gulf states. Saudi Arabia is presumably geared to challenge Iran. Regional arrangements are palpable in the form of some kind of regional arrangements or outsourcing some of America's responsibilities. Regional security environment may be actuated by regional powers under the direct aegis and technological and military support of the Americans.

Given this development, South Asia will have two giants one poised against the other, to play and check the game plan of the Americans. However, India is a mature democracy having very seasoned leadership who may not totally tow the line of the Americans. But when it comes to containing China or Pakistan, or dealing with other smaller nations of South Asia, India will have to give its best. Otherwise India's prestige as a preponderant power, at least in South Asia, will be at stake. India, very much, wants to be an Asian power. It has acquired nuclear power to demand such a status. America has already granted such a status to India by signing the Civilian Nuclear Deal with India, although the Deal is under strain at the moment due to internal political dynamics of India.

#### **4. Bangladesh in the Context**

China and India, therefore, clearly comes out in the regional environment who can call shots in the power political game. Geo-economics also gets linked up. Their economies are booming which are fast overshadowing the regional economies. These two economic powerhouses are even quietly but forcefully competing with the economies of the developed countries and, more importantly, bridging the gap between the size of the economies of China and India, on the one hand, and that of the developed economies, on the other. India is poised to emerge as the world's third largest economy by the year 2032, while China's economy is to be larger than the US economy by 2041.<sup>15</sup> In addition, China and India are pursuing massive military, nuclear and space technology modernization. These two giants are also coming closer to settle their conflicts and having more economic cooperation. Inter-state trade has ballooned. However, all these do not stop them from acquiring state of the art ICBMs or nuclear powered submarines or world class fighter

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<sup>15</sup> *Ibid.*

bombers. Both nations' defence budgets are growing by leaps and bounds. Indian defence budget is closing to US\$50 billion when the Chinese, as the American claim, is close to US\$100 billion.

The strategic manoeuvres by both the nations are on. Each one of them is trying to court allies in the environment. However, both the actors are playing a very mature and balanced game of geopolitics. Now Bangladesh has to fit into this geopolitics, keeping its national interests above everything else. Bangladesh can not remain timid, nor should it get sidelined, or sandwiched. It has to play a fine game of balancing if it has to survive as a self-respecting nation. Bangladesh is already overwhelmed by innumerable internal problems which are considerably affecting its human security. All these also have their ramifications externally. Bangladesh has too many people living in too little a space. It has very few comparative advantages. It is plagued by misgovernance, corruption and trans-national crimes. Political instability is crippling this otherwise potential country. Its abundant manpower, although a liability, can easily be turned into human resources and be exported for more remittances. This year it has earned US\$6.4 billion in remittances which, according to the World Bank, can be increased to US\$15 billion by the year 2015. As a matter of fact this remittance earning is greatly sustaining its already fragile economy. This year's acute shortage of foodstuff, caused mainly by natural disasters, is being refilled by importing food at a very high price. This could not have been possible without having enough foreign currency reserves. However, deficit financing is also increasing hugely.

Another crisis that looms large in the horizon is the energy crisis in Bangladesh. The present proven gas reserves may get depleted soon unless new reserves are discovered or make the prudent use of coal as an alternative source of energy. Food shortage multiplied by energy shortage and skyrocketing of its price in the international market and other trans-national events like climate change due to sea-level rise, cyclonic storms, tidal bores, floods, trans-national terrorism, spread of infectious diseases, like avian flue, AIDS, corruption in every strata of society and so on may make life in Bangladesh more miserable in not-too-distant a future. Just to cite an example, that touches the tip of an iceberg in terms of damage wrought by the natural disaster, the recent avian flue in Bangladesh

has done damage to the tune of Taka 40 billion to its economy. One can then well imagine the damage caused by the cyclonic storm SIDR that hit the entire south western part of Bangladesh. Bangladesh's trade imbalances both with China and India are monumental to the tune of billions of US dollars. Bangladesh has to take corrective measures to ward off the overwhelming effects of these two giant economies. Bangladesh has to look to the EU, the Middle East, the US, Southeast Asia and Japan to ward off from being engulfed.

Its economy is undergoing a difficult period, due to the skyrocketing prices of essentials, like fuel and food. Its politics is in limbo mainly due to confrontational political culture, bureaucracy is not-so-efficient, public universities are not delivering as expected and corruption is corroding the social fabric of the nation. If such state of affairs continues, Bangladesh's existence, as a viable country, may be problematic. However, some kind of institution building has started which is quite encouraging. Bangladesh has to crystallize its national objectives for at least next 10-15 years and start implementing its perspective plan. Bangladesh may not fall prey to the geopolitical and geo-economic objectives of the great powers, both regional and extra-regional. It has to distance itself deftly but still derive maximum from the giants and others. Geostrategic location of Bangladesh may tempt the regional or extra regional powers to meddle in the affairs of Bangladesh. Bangladesh may commit a blunder if it allows such meddling by the foreign powers.

Bangladesh's polity, economy, bureaucracy, education, health and the spectre of calamities, and so on are in such a state that any wrong move in the international arena may bring disaster for the country. Bangladesh is already a soft state. This got further exacerbated by the natural disasters that befell this unfortunate land recently. Politicians could not live up to the expectations of the people, but again politics may not be abandoned because grass root connection is obligatory for the effective governance of the country. It, therefore, boils down to the fact that Bangladesh's internal policies and external dynamics of relations have got intricately mixed. Is this a critical scenario? If so, only a competent, visionary and knowledgeable leadership functioning within a legitimate political process can face the challenges of the time.

## 5. Response

Firstly, leaning towards multi-polarity could balance out the chaotic state that the world is in today. And this multi-polarity implies both at the regional and international levels. However, along with the multi-polarity, efforts should be geared to sort out the flashpoints.

Secondly, in order to settle the issues of flashpoints, UN needs to be reformed to make it more effective. It needs to be made more representative to give way to the newly emergent economic and military powers who do, otherwise, call shots. Reform options are available from where one of them should be agreed upon by the veto wielding powers.

Thirdly, along with the UN, regional institutions also need to be strengthened to take charge of the regional issues. However, care should be taken not to give rise to regional hegemons. EU could be a good model for others to emulate. The New Partnership for African Development (NEPAD), strongly backed by South Africa, has moved beyond Westphalian sovereignty, by peer review mechanism, is encompassing areas of peace and stability, political governance, and economic and corporate governance. African Union (AU) is also coming out as a good model followed by ASEAN wherein ARF is playing a significant role in getting the powers in constructive engagement. SAARC, however, is far from being moving towards such a direction. In South Asia, political and economic interactions are not yet propitious for this. But South Asia can not afford to sit back when other regional organizations are moving forward with increasing momentum, be it geopolitics, security, counter terrorism, resolving disputes, bi-lateral or multilateral issues, economic integration, encouraging democratic dispensation etc. Both China and India are embroiled in the geopolitical game, but still they are moving forward for resolving the outstanding contentious issues and increasing mutually beneficial economic cooperation. Smaller states of South Asia should constantly keep the two giants engaged in creating a harmonious environment where economics, culture and people-to-people contacts would overshadow the geopolitical ambitions. Engagement and balancing would be two good options

for the smaller nations of South Asia. These are especially applicable for Bangladesh.

Fourthly, Confidence Building Measures (CBMs), both at the international and regional levels, should be revitalized under the aegis of revamped UN and other regional organizations. State-to-state CBMs should also be pursued in right earnest by the actors concerned.

Fifthly, America, though called a super/hyper power, can not sort out all the outstanding issues of the world by itself. The US earnestly needs collaboration with the great powers, like Russia, China, India, France, Germany and Japan in order to deal with the flashpoints, like Palestine, Taiwan, Kashmir, Iran, Iraq, Afghanistan, Balkans etc. Many powers may not agree to handle some of the flashpoints overtly, but quite or behind-the-scene diplomacy can always take care of those. Any drift towards further deterioration of situation in any or a number of flashpoints as listed above would make the world more unsafe. It would be wise for America to pass on some of the responsibilities gradually to the reformed UN. This would lead the world towards better stability and make it safer. This would also be in the interests of America in the long run. America may now seriously think of re-energising its soft power which is likely to give it more dividends. This will make America even greater. According to Fareed Zakaria, in a new global survey, most nations polled believed that China would act more responsibly in the world than the United States. It isn't that America is too strong, but that it is seen as too arrogant and insensitive. "The United States is seen as arrogant and aloof, protective of its power but unable to use it wisely. It talks tough but refuses to work with allies or meet with leaders it doesn't like. This undermines America's ability to lead, to drive wedges between its adversaries and to negotiate settlements to protracted problems".<sup>16</sup> Such an image can not be conducive to even the long-standing interests of the US.

Sixthly, strengthening normativity in all international relations should be emphasized. Multi-polarity in normative aspects would be more meaningful than the strategic multi-polarity at least for the time

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<sup>16</sup> Barack Obama, "The Need for a New Face", *Newsweek*, Special Edition Issues, 2008.

being. Diplomacy, values, ethics, democracy, human rights, adhering to the UN Charter and Geneva Conventions, and dispensing justice should be the way forward.

Seventhly, to counter terrorism, the international community should address the legitimate political grievances and aspirations of marginalised groups, coupled with intelligence-led counter terrorism police action against violent groups and open dialogue with terrorist leaderships. UN and other regional organizations should be involved whenever possible. This again brings to the fore the point of addressing the flashpoints.

Eighthly, the smaller states, for their sustenance and survivability should pursue multilateralism. Even if multi-polarity comes back, as was the case during the pre-World War II period, smaller countries like Bangladesh have to explore all avenues to derive maximum. Energy crisis, food shortage, trans-national crimes, internal political instability, volatility in the behaviour of climate, population burden etc. are going to pose formidable challenges.

## **6. Concluding Remarks**

There is no 'End of History'. The basic tenets and dictates of history probably come back over and over again to transform the destinies of the nations and their people. Basic realities and nature of power politics hardly undergo changes. It may change the actors' alignment, given their interests at that point in time. But the interests reign supreme. However, interests may cover a very wide spectrum ranging from leadership/policing role to control over resources to preserving one's ideologies and convictions. Creation of nation-states especially after the Second World War developed a pattern of inter-state relations where anarchic situation was palpable. After the Cold War, with the disintegration of the Soviet Union, it was thought that the uni-polarity and triumph of democracy would bring about stability, and peaceful world environment would prevail. This did not happen due to the outbreak of ethnic and religious conflicts in different parts of the world. Non-state-actors took over the world stage of politics. America reacted to it with its full might. If a force is not resisted at any stage, it gets further momentum which might rupture the system. Fault line in the system may cause it to

malfunction. Unilateralism has taken control even at the cost of efficacy and relevance of the United Nations. Trans-national crimes are challenging the viability of the nation-states. The evolving scenario is complex. It is moving towards multi-polarity with elusive non-state-actors complicating the scenario with serious consequences. In pursuit of their interests, soft power may now be given greater consideration by all the concerned stakeholders.

*Ishtiaque Selim*  
*Mohammad Jasim Uddin*

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**Mr. Ishtiaque Selim** and **Mr. Mohammad Jasim Uddin** are Research Officers at the Bangladesh Institute of International and Strategic Studies (BIISS). Their e-mail addresses are: [ishtiaque@biiss.org](mailto:ishtiaque@biiss.org) and [jasim@biiss.org](mailto:jasim@biiss.org) respectively.

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# **JAPAN-BANGLADESH ECONOMIC RELATIONS: CHALLENGES AND OPTIONS**

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## **Abstract**

The core of Japan-Bangladesh economic relations is built on Overseas Development Assistance (ODA) and trade, and, to some extent, on Foreign Direct Investment (FDI). Japan, since 1992, has become the largest ODA provider to Bangladesh. The ODA is still the most significant part of Japan-Bangladesh economic relations. Even during the 1970s, the total volume of trade between the two countries has been remarkable. However, there has not been any significant rise in the volume of trade in real terms. A similar trend could be observed in Japanese investment in Bangladesh. While Japanese investment in Bangladesh is already considerable, no FDI from Japan has been recorded since 2001. Some adverse factors are also likely to gradually reduce Japanese economic assistance to Bangladesh. The challenges facing Japan-Bangladesh economic relations are inefficient utilisation of Japanese assistance, lack of competent organisational framework and weak project implementation process on the part of Bangladesh government. These are compounded by global economic recession, lessening of Japanese interest in South Asia, curtailment in Japanese ODA disbursement and other factors. While Japan's aid has been of high quantity, Bangladesh's capacity of aid utilisation needs substantial improvement. Besides, increasing exports to Japan and creating FDI friendly environment are important tasks. It is in this context that the present paper attempts to analyse the current Japan-Bangladesh economic relations.

## **1. Introduction**

The transformation of Japan from a war torn economy to the world's second largest economy is literally spectacular. Japan has become the largest donor of Overseas Development Assistance (ODA) and the largest creditor to the world. It has also got the largest pool of financial and investment fund. With its spectacular growth in industry and technology, Japan has been sharing a major portion of global trade. All these contributed to the emergence of Japan as one of the significant development partners of the

developing nations, including Bangladesh. In fact, Japan occupies an increasing importance in Bangladesh's foreign policy, especially in its external economic relations.<sup>17</sup> Ever since the recognition of Bangladesh by Japan on February 10, 1972, both countries have consistently maintained friendly relations and mutually beneficial economic cooperation.

The core of Japan-Bangladesh relations is built mainly on economic assistance and trade, and, to some extent, investment. Being the largest aid donor and a leading economic partner of Bangladesh, the impact of Japanese assistance is profound on almost all aspects of the country's development and social transformation. Japan, since 1992, has become the largest ODA provider to Bangladesh and it is still maintaining that position by extending all-out cooperation in infrastructure and socio-economic development. Sectors such as power, fertiliser and telecommunication have received considerable assistance from Japan. It is important to note that roughly 13 per cent of national power generating capacity, 67 per cent of the fertiliser production capacity of the country and nearly 50 per cent of telephone capacity in greater Dhaka area are installed through utilising Japanese assistance.<sup>18</sup>

Some challenging factors, however, are likely to gradually reduce economic support from Japan, which can influence the overall economy of Bangladesh. The challenging factors are inefficient utilisation of Japanese assistance, lack of competent organisational framework, weak project implementation process, world economic recession, curtailment in Japanese ODA disbursement, and any possible reduction in Japanese interest in South Asia. While Japan's aid has been of high quantity, Bangladesh's capacity of aid utilisation needs substantial improvement in the future. Besides, increasing exports to Japan and

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<sup>17</sup> A. K. M. Abdus Sabur, "Foreign Policy of Bangladesh: Challenges in the 1990s", *BISS Journal*, Vol.12, No.4, 1991, p. 483.

<sup>18</sup> Outline of Japan's ODA to Bangladesh, available at: [http://www.mofa.go.jp/policy/oda/region/sw\\_asia/bangla\\_0.pdf](http://www.mofa.go.jp/policy/oda/region/sw_asia/bangla_0.pdf), accessed on September 25, 2007.

attracting Foreign Direct Investment (FDI) from the Japanese investors are also of crucial importance.

It is in this context that the present paper attempts to analyse the current Japan-Bangladesh economic relations with a focus on the challenges faced by and options available to the country. The paper consists of five successive sections. The ongoing introduction constitutes the first section. The second section attempts to find out the imperatives for Japan-Bangladesh economic relations. Existing economic relations between Japan and Bangladesh are discussed in the third section. The fourth section explores a set of challenges faced by the Japan-Bangladesh economic relations and various options to meet these challenges. Finally, an attempt would be made to indicate some outlook for the future.

## **2. Imperatives for Japan-Bangladesh Economic Relations: An Overview**

In international relations, inter-state behaviour may manifest itself in three types of relations, namely, conflict, competition and cooperation. While conflictive and competitive behaviours are caused by a complex web of factors, the one of cooperation simply flows from the economic commitments of the states to cooperate with each other in an atmosphere of mutual trust and understanding. The factor that catapults cooperative relations is the expectation for tangible gains out of constructive interaction. Keeping this in mind, one can ask: what are the expected gains for both Japan and Bangladesh out of their mutual cooperation? The following account makes an attempt to address this question.

As already mentioned, the economy of Japan grew significantly in the post-World War II period. To maintain its spectacular growth, Japan requires raw materials and manpower. However, as a resource starved and labour scarce country with a higher proportion of old people in its population, Japan depends on external sources for these. In this regard, this Asia Pacific country needs cooperation with its neighbours of Asia. Although Bangladesh, as a distant neighbour of Japan, is not in a position to fulfil the Japanese demand for raw materials, it could export manpower from its vast pool of surplus workforce to Japan. In addition, Japan can take the advantage of

cheap workforce of Bangladesh. One way of doing this could be relocation of selective Japanese labour-intensive industrial units to Bangladesh. Another way could be outsourcing of selective labour-intensive jobs to Bangladesh. Apart from this, Bangladesh is already an attractive market for Japanese exports with a balance of trade that is constantly favourable to Japan. Also another compelling factor prompts Japan to seek economic cooperation with developing nation like Bangladesh. As protectionism grows significantly in European and the US markets, sustained economic growth of Japan is likely to depend on a prosperous neighbourhood.<sup>19</sup> Hence, with its liberal investment policy, Bangladesh has become a destination of Japanese investment.

In contrast, Bangladesh, soon after its birth, needed economic assistance from the developed countries to rebuild its war-ravaged economy. In this regard, Japan emerged as one of the countries that rendered significant assistance to Bangladesh. In course of time, with considerable aid and grants, Japan turned into a leading development partner of Bangladesh. Also, Bangladesh can tap the potential by exporting its products to the Japanese market, which is vast in terms of purchasing power. At the same time, for Bangladesh, Japan is also a source of learning and inspiration. Furthermore, technologically highly developed, Japan provides Bangladesh with technical expertise.

### **3. Existing Economic Relations between Japan and Bangladesh**

The bilateral economic relations between Japan and Bangladesh started in 1972. The components of existing economic relations between the two countries are Overseas Development Assistance (ODA), trade and Foreign Direct Investment (FDI). Apart from these three components, employment opportunities for the Bangladeshi expatriates to Japan remain a significant potential component of economic relations between the two countries.

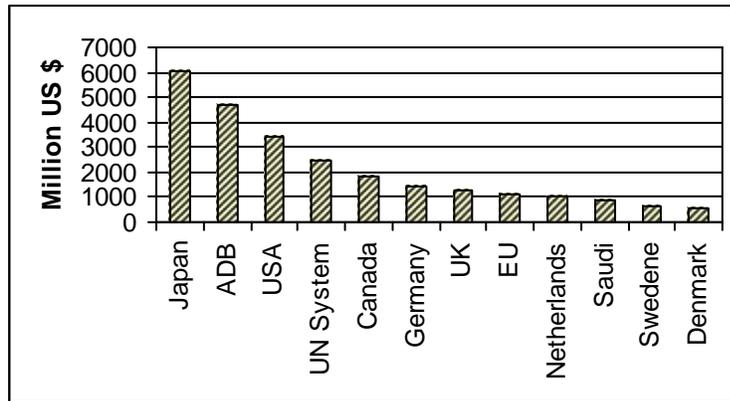
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<sup>19</sup> A. K. M. Abdus Sabur, *op. cit.*, p. 484.

### ***Overseas Development Assistance***

ODA is the most important component of the Japan-Bangladesh economic relations. Since 1972, Japan has been providing the ODA to Bangladesh. Over the three decades (1972 to 2002), Japan has been the top ODA provider to Bangladesh among the DAC (Development Assistance Committee) countries. Moreover, Japan even provided more ODA to Bangladesh than some multilateral organisations like Asian Development Bank (ADB) and European Union (EU) (see Chart 1). In the forms of loan assistance, grant aid and technical assistance, Japan has been disbursing the ODA (see Table 1) to increase economic growth and social development of Bangladesh. Thus, Japan has always been an important development partner of Bangladesh.

**Chart 1: Net Disbursement of ODA of the DAC Countries/Multilateral Organizations to Bangladesh (1972-2002)**



Source: *Weekly Market Review*. No.166 (April), 2007, Dhaka: Asset and Investment Management Services of Bangladesh.

**Table 1: Japan's ODA to Bangladesh (1995 to 2004)**

(In US \$ million)

Year	Loan Assistance	Grant Aid	Technical Assistance
1995	195.5	190.1	12.3
1996	0	192.5	14.9
1997	141.5	220.8	17.3
1998	0	183.1	17.3
1999	152.2	270.1	19.3
2000	148.5	213.6	22.4
2001	0	194.0	36.8
2002	85.4	228.2	33.3
2003	0	12.8	24.4
2004	105.2	19.6	20.9
Cumulative amount	5314.8	4198.0	431.9

Source: Loan assistance and grant aid is aggregated on the basis of the date of the Exchange of Notes (E/N). Technical assistance is JICA-disbursement based.

During 1995-2004, out of the total Japanese ODA to Bangladesh, loan assistance comprised 52 per cent.<sup>20</sup> Japan has been

<sup>20</sup> Outline of Japan's ODA to Bangladesh, *op.cit.*

providing loans to Bangladesh on concessional terms. The interest rate is 1 per cent with a repayment period of 40 years. Japan has been extending loans mainly in the areas of infrastructure, electricity and power sector.<sup>21</sup> On the other hand, Japan has been providing grant aid in the areas of agriculture, medical services and disaster management. The policy of grant aid is guided by the following considerations: the demand for resources in the country, the capacity to absorb aid and the ability to service the debt.<sup>22</sup> Under these considerations, Bangladesh has received the largest amount of Japan's grant aid (roughly 55 per cent) in the form of debt relief.<sup>23</sup> Apart from loan assistance and grant aid, Japan has been extending technical assistance in the form of technical program. Japan has trained 4,722 trainees and has dispatched 1,089 experts to Bangladesh under the program of Japan Overseas Cooperation Volunteers (JOCV).<sup>24</sup> Besides, Japan has consistently emphasised on Human Resources Development (HRD) of Bangladesh. In effect, mid-level government and non-government officials and students of

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<sup>21</sup> Japan has already completed the feasibility study for the construction of the Padma Bridge and assured to assist US \$120 million jointly with the International Monetary Fund and the World Bank. In addition to this, Japan has been examining the necessity of a deep-sea port and construction of subway or monorail to improve the public transportation of Dhaka city. Japan recently has approved US \$ 324 million as loan assistance for the development of New Haripur power plant (360 mw), Dhaka-Chittagong railway and small-scale water resources projects. See, "\$324m Japanese loan aid for three projects", *The Daily Star*, December 11, 2007.

<sup>22</sup> Country Assistance Program in Bangladesh, *Embassy of Japan in Bangladesh*, May 2006, available at: <http://www.bd.emb-japan.go.jp/en/assistance/assistanceProgram.html>, accessed on December 21, 2007.

<sup>23</sup> Monir Hossain Moni, "Japan-Bangladesh Economic Partnership: Focus on Aid, Trade and Investments", available at: <http://isq.sagepub.com/cgi/content/refs/43/4/395>, accessed on November 25, 2007.

<sup>24</sup> *Ibid.*

Bangladesh have been getting scope of training in different fields in Japan.

### *Trade*

Bilateral trade relations between Japan and Bangladesh started with a set of export and import items. The major export items of Bangladesh are fruits and vegetables, textile and textile articles, raw skin and hide, and footwear. On the other hand, vehicles and transport equipments, steel and metal, and chemicals are the major import items of Bangladesh (see Table 2).

**Table 2: Bangladesh's Major Items Traded with Japan in 2004**

Export of Bangladesh to Japan	Fish and crustaceans	Raw hides and skin	Textile and textile article	Footwear
	Value = \$18,806	Value = \$17,703	Value = \$14,355	Value = \$5732
	Share = 3.57%	Share = 3.36%	Share = 2.72%	Share = 1.07%
Import by Bangladesh from Japan	Vehicles and transport equipment	Base metals and articles of base metal	Product of chemical or allied industries	
	Value = \$210.64m	Value = \$99.72m	Value = \$18.90m	
	Share = 38.27%	Share = 18.93%	Share = 3.59%	

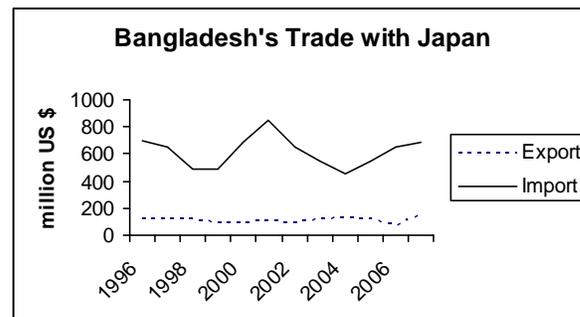
**Source:** Extracted from Import Payments and Export Receipts, *Bangladesh Bank*, 2006.

In 1977, Bangladesh's export to and import from Japan were US\$12 million and US\$80 million respectively.<sup>25</sup> In 2007,

<sup>25</sup> Raisul Awal Mahmood and Anup Chowdhury, "Emerging Pattern of Bangladesh's Economic Relations with Japan", *BISS Journal*, Vol. 15, No. 1, 1994, p. 17.

Bangladesh's export to Japan is US\$147.47 million, whereas its import from Japan is US\$752.16 million.<sup>26</sup> Although the volume of export to and import from Japan has been far ahead compared to that of the initial stage of trade relations, trade basket has been one-way traffic in favour of Japan (see Chart 2). Despite having GSP (Generalised System of Preferences) facilities that allow duty free access of most Bangladeshi products to Japan, there has not been any significant rise in the trade volume of Bangladesh.<sup>27</sup> Even after that, Japan has become an important export destination for the Bangladeshi commodities.

**Chart 2: Bangladesh's Trade with Japan (1996-2006)**



**Source:** Author's calculation based on collected data from Export Receipts, *Bangladesh Bank*, 2007.

#### ***Foreign Direct Investment***

Japanese Foreign Direct Investment (FDI) to Bangladesh started in 1977 and reached a significant proportion only in the late 1990s. During the period of 1997 to 2004, the cumulative amount of Japanese FDI to Bangladesh is US\$18 million but no FDI from Japan

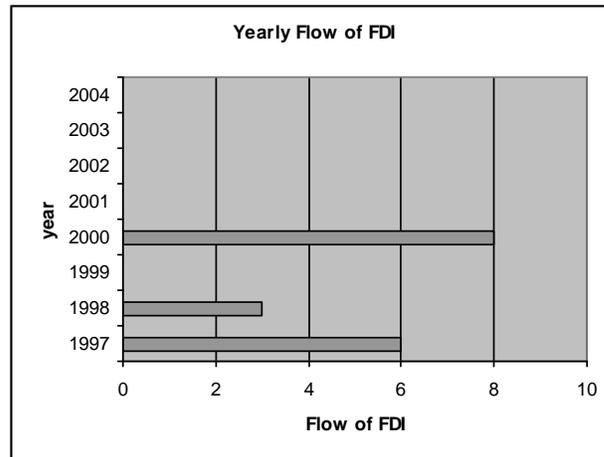
<sup>26</sup> Direction of Trade Statistics Yearbook, 2007.

<sup>27</sup> Dr. Abul Kalam, "Japan-Bangladesh Ties: An Analytical Study", *Regional Studies*, Vol. XII, No. 4, Autumn 1994, p. 65.

has been recorded since 2001(see Chart 3).<sup>28</sup> This reflects that the total inflow of Japanese annual private foreign investment to Bangladesh has been meagre amount with an average of US\$0.5 million.<sup>29</sup>

**Chart 3: Japan's Onward FDI to Bangladesh**

(In US \$ million)



**Source:** Available at: <http://www.mof.go.jp/english/elc008.htm>, accessed on September 29, 2007.

The main area of Japanese investment to Bangladesh is the Export Processing Zones (EPZs). More than 21 Japanese private companies inside the EPZs and 40 outside the EPZs are presently

<sup>28</sup> Available at <http://www.mof.go.jp/english/elc008.htm>, accessed on September 29, 2007.

<sup>29</sup> *Ibid.*

operating in Bangladesh.<sup>30</sup> The largest Japanese investing company, YKK, has been working at the Dhaka EPZ. The company has already started its production. Apart from the EPZs, Japan has invested in chemical fertiliser, shrimp hatchery, knit fabric, automobile parts, leather and leather goods on a small scale. Recently the Japanese investors have also expressed their interest to invest in the development of Bangladesh's gas and coal sectors.

#### ***Employment Opportunities***

Japan has emerged as one of the attractive destinations of Bangladeshi expatriate workers. Better job opportunities and high level of income in Japan in contrast with unemployment and underemployment at home have encouraged thousands of young and educated Bangladeshis to migrate to Japan for employment. Based on Japan Immigration Association, *Statistics on Immigration Control*, 2006, there were about 451 Bangladeshis living in Japan in 1985 and 7774 in 1990. Although the number of expatriate Bangladeshi workers in Japan is quite modest, the remittances from Japan have been increasing steadily. Until 2000, the remittances stood at about US \$335.62 million.<sup>31</sup> The Bangladeshis living in Japan work in various sectors, such as, Small and Medium size Enterprises (SMEs), industry, construction and services.

#### **4. Japan-Bangladesh Economic Relations: Challenges and Options**

Apart from a few business houses that have recently shown interest in South Asia, neither the Japanese government nor the intellectual circles in Japan have demonstrated any significant

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<sup>30</sup> A. K. M. Atiqur Rahman, "BIMSTEC-Japan Cooperation in Trade and Investment: Bangladesh Perspective", in Abdur Rob Khan (ed.), *Towards BIMSTEC-Japan Comprehensive Economic Cooperation Bangladesh Perspective*, Bookwell, New Delhi, 2007, p. 33.

<sup>31</sup> Bureau of Manpower, Employment and Training, Bangladesh (BMET), 2001.

interest in the region.<sup>32</sup> Although Japan occupies an increasing importance in Bangladesh's foreign policy, the insufficient attention from the government of Japan could reduce its ODA budget for Bangladesh. It is particularly due to the fact that Japan has decided to curtail its ODA budget by 4 per cent for the developing countries.<sup>33</sup> This could result in a reduction of Japanese ODA to Bangladesh, which in turn, could influence the economic relations between Japan and Bangladesh in a highly adverse way.

### *ODA Issues*

Japan's ODA policies towards Bangladesh are often criticised on the ground that the Japanese aid deals with mega-scale infrastructure development projects, whereas aid from other donors mainly concentrates on promoting a pro-poor policy and self-help grass-

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<sup>32</sup> Purnendra C. Jain, *Distant Asian Neighbours: Japan and South Asia*, Sterling Publishers, New Delhi, 1996, p. 39.

<sup>33</sup> A 4 percent drop in ODA budget would bring the total allocation to around \$ 6.2 billion, a far cry from the period when the amount reached almost \$15 billion. Some of the recent studies suggest that Japan will likely to drop to sixth place amongst the ODA donor nations in 2010 if this country reduces the ODA disbursement. The Development Assistance Committee (DAC) at the Organisation for Economic Cooperation for Development (OECD) in its forecast has ranked Japan at sixth in ODA spending by 2010, behind the United States, Germany, Britain, France and Italy. The DAC has made the forecast by reviewing the past ODA figures, including their numerical targets for increased spending and other statistics for each of the 22 members. According to DAC's estimation, Japan's ODA is expected to stand at \$10.09 billion by 2010 as opposed to \$8.99 billion in 2006. Japan's ratio of ODA to Gross Domestic Products (GDP) could also decrease to 0.21 per cent in 2010, from 0.25 per cent in 2006. It will be a blow to reach an important target of the Millennium Development Goals (MDGs), although to reach the goals of MDGs, the donor countries are obliged to increase their ODA allocations to 0.7 percent of GDP by the year 2015. Manzurul Huq, "ODA decline marks Japan's dwindling influence", *The Daily Star*, December 25, 2007.

roots assistance programmes.<sup>34</sup> Japan should realise that Bangladesh not only needs more aid but also better aid. With regards to rural development and agricultural growth, Japanese ODA could emphasise on productive activities to improve rural incomes and create jobs for the rural poor, particularly for the landless farmers. Economic assistance could also support rural institution building, local participation in social development and to build social infrastructure in collaboration with local Non-Government Organizations (NGOs). The Japanese aid could focus further on improving the food self-sufficiency rate by conserving farmland, spreading agricultural technology and conducting agricultural research.

A unique and continuing feature of Japan's aid to Bangladesh is the high proportion of loans (roughly 50 per cent). There exists a problem on Japan's intention to extend loans to Bangladesh. Bangladesh has continuously received debt relief by having loans *de facto* transformed into grant aid *ex post*.<sup>35</sup> This indicates that Bangladesh does not have sufficient debt-servicing capacity and it might not be eligible for loans.<sup>36</sup> This is a matter of concern for Bangladesh.

The practice of co-financing with multilateral agencies poses problem to Japan. Japan does not agree with policy prescriptions of

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<sup>34</sup> Toru Yanagihara, "Japan's Foreign Aid to Bangladesh: Challenges and Dependency Syndrome", in Bruce M. Koppel and Robert M. Orr, Jr. (eds.), *Japan's Foreign Aid Power and Policy in a New Era*, Westview Press, Colorado, 1993, p. 189.

<sup>35</sup> Matsushiro Horiguchi, 'A Perspective on Japan-Bangladesh Relations', speech delivered at the memorable occasion on Golden Jubilee of the National Press Club, Dhaka, April 20, 2004, available at: <http://www.bd.emb-japan.go.jp/jbrelation-e.pdf>, accessed on September 20, 2007.

<sup>36</sup> The total debt service payment of Bangladesh in fiscal year 2004 is 13.72 per cent of country's merchandise export, 8.77 per cent of exports of goods and services and 1.8 per cent of GDP.

multilateral institutions.<sup>37</sup> But Bangladesh has been maintaining formal agreements with the IMF and the WB regarding structural adjustment lending. By involving with the co-financing arrangements, Japan unwillingly endorses the policy conditionalities attached to the multilateral loans. When Japan raises concerns about the prescriptions, the multilateral agencies as well as other donors complain that Japan is working against the donor community's effort. In the late 1980s, a concern was created that Japan is reluctant to share the commitment to market-oriented economic reforms.<sup>38</sup> Such complain has contributed to the chorus of allegations from other donors that Japan's ODA is principally mercantile.<sup>39</sup> Since Japan's intention is to expand its economy and Bangladesh's prime goal is to earn aid, both the countries need to look at cooperative relationship from economic perspective. If too much donor involvement complicates aid efforts, economic diplomacy and corporate interests may pave the way for cohesion and national interests.<sup>40</sup>

### ***Trade Issues***

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<sup>37</sup> Monir Hossain Moni, *op.cit.*

<sup>38</sup> For example, at aid policy dialogues between the United States and Japan, the US has raised concerns about whether Japan's aid programming in Bangladesh was undermining the efforts of other donors to support economic policy reform initiatives by the Bangladesh government. See, Bruce Koppel and Seiji Naya, *Honolulu I: ODA Management and Asia's Economic Development* (Honolulu: East-West Centre, 1988); Bruce Koppel, *Honolulu II: ODA Management and Asia's Economic Development* (Honolulu: East-West Centre, 1989).

<sup>39</sup> *Ibid.*

<sup>40</sup> Economic diplomacy can be generally described as formulation and advancing policies relating to production, movement or exchange of goods, services, labour and investment with other countries. See, Nicholas Byrne and Stephen Woolcock, *The New Economic Diplomacy*, Ashgate Publishing House, England (G-8 and Global Government Series), 2003.

Bangladesh accounts for 26 per cent of all exports from the LDCs to the Japanese market and holds the second largest position.<sup>41</sup> Even after that there has always been a huge trade deficit between the two countries. In 2007, Bangladesh's export to Japan was US\$147.47 million, while import from Japan was US\$690.36 million which left Bangladesh with a trade deficit of US\$542.89 million.<sup>42</sup> The previous years also depict a similar trend (see Table 4). Bangladesh has been trying to attract the Japanese buyers but with very little success. Even the most important Bangladesh product to the Western market, readymade garments (RMG), is far from making any inroad into the Japanese market.

**Table 4: Bangladesh's Trade Deficit with Japan (1996-2006)**

(In US \$ million)

Fiscal Year	Trade Deficit
1996	574.69
1997	533.09
1998	370.86
1999	401.17
2000	587.51
2001	738.45
2002	558.95
2003	434
2004	320
2005	426.33
2006	597.5
2007	542.89

**Source:** Export Receipts and Import Payments, *Bangladesh Bank*, 2007.

Imports from Bangladesh have not been substantial because Bangladeshi goods by and large are not competitive in Japan in comparison with those from East and Southeast Asian countries. For an example, Bangladesh's RMG export to Japan has not been voluminous due to perceived poor quality. It may be noted here that

<sup>41</sup> Matsushiro Horiguchi, *op.cit.*

<sup>42</sup> Extracted from Export Receipts and Import Payments, *Bangladesh Bank*, 2007.

China currently accounts for approximately 80 per cent of Japan's total RMG market owing to its geographical proximity, higher productivity and competitive pricing.<sup>43</sup> On the other hand, with an ever increasing middle class in Bangladesh, the import of products like automobiles from Japan is likely to grow in the future. The increasing demand, attributable to people's mobility, changes in lifestyle, accumulation of savings as well as the development of transportation and communication infrastructure, points to a sizable Japanese automobile market in Bangladesh in the coming years. As a result, the volume of Japanese export to Bangladesh has been larger than the volume of Bangladeshi export to Japan. Consequently the trade gap between the two countries has been increasing. While roughly 80 per cent of Bangladesh's export is directed to industrial countries, only 20 per cent of its import is sourced from the same.<sup>44</sup> As a result, Bangladesh enjoys trade surplus with the USA and the EU. But, the scenario is quite opposite in relations to trade relations with Japan (see Table 5).

**Table 5: Bangladesh's Global Trade Relationships (2006)**

<b>Bangladesh's Major Export Destinations</b>	<b>Position</b>	<b>%</b>	<b>Bangladesh's Major Import Sources</b>	<b>Position</b>	<b>%</b>
USA	1	27.7	China	1	13.90
Germany	2	16.7	India	2	12.55
UK	3	10.4	Singapore	3	6.8
France	4	7.1	Kuwait	4	5.75
Italy	5	4.4	Hong Kong	5	4.24
Spain	6	4.1	Japan	6	4.13

**Source:** Import Payments and Export Receipts, *Bangladesh Bank*, 2007.

Bangladesh's export to Japan constitutes only 0.76 per cent of its global exports whereas the country's import from Japan constitutes 4.13 per cent of its global imports.<sup>45</sup> Notwithstanding such an uneven

<sup>43</sup> Monir Hossain Moni, *op.cit.*

<sup>44</sup> A. K. M. Atiqur Rahman, *op. cit.*, p. 36.

<sup>45</sup> *Ibid.*, p. 35.

situation in trade between Japan and Bangladesh, the two countries are far from initiating any effective measures that could reduce the huge trade deficit in favour of Japan. Taking the bilateral trade gap into consideration, both Japan and Bangladesh need to take initiatives. Since Japan has allowed almost all industrial goods under zero tariff facilities, Bangladesh needs to produce high quality products with competitive price to enter the Japanese market. The country also needs to conduct substantial research on Japanese market and diversify its export basket accordingly. In this regard, Japanese enterprises or the joint venture ones in Bangladesh specialising on products for Japanese market could play an important role. As Japan focuses on producing new patent projected drugs and the Japanese companies produce only five per cent of generic products of its total requirement, Bangladesh also have potentials to export generic drugs and non-prescribed medicines to Japan.<sup>46</sup> To explore the RMG market of Japan, products from Bangladesh have to be at least *at par* with the Chinese ones in terms of quality and also competitive in terms of price. In this regard, it is important to pay attention to the issue of transferring Japanese technology to the export oriented industries in Bangladesh. Promotion of awareness through exhibition on Bangladeshi garments products in Japan could also be an important step.

Besides, Japan can be a potential market for Bangladeshi workers. As the population of Japan grew older, the need for expatriate workers is increasing. Bangladesh can be a good source of workers for Japan. In this regard, it is an imperative for Bangladesh to introduce training programmes in order to enhance skills to make its labour force suitable for Japan. Bangladesh, with its large manpower in the IT sector, may also set eyes on the vast Japanese software market for the employment opportunities.

### ***FDI Issues***

The Japanese investment in Bangladesh ranks fourth among the foreign investing countries, after the USA (about 27.5 percent), the

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<sup>46</sup> Jasim Uddin Khan, "Japan beckons local medicine makers", *The Daily Star*, January 7, 2008.

UK (about 12.5 per cent) and Malaysia. Nonetheless, the amount of Japanese investment in Bangladesh remains small in terms of Bangladesh's requirements in FDI not to speak about Japan's potential in this regard.<sup>47</sup> The Japanese investors express lack of interest in Bangladesh due to the following reasons: poor governance, political instability, inefficient utilisation of foreign capital and technology, absence of efficient state-owned enterprises, government's restrictions on private enterprises, poor infrastructure facilities, absence of public-private sector collaboration, lack of quick re-investment opportunities, discontinuity of undertaken policies and lack of investment-facilitating factors, such as, high corporate tax, perceived limited size of the market, and high cost of doing business.<sup>48</sup> In the circumstances, Bangladesh has not emerged as an attractive destination of Japanese investment. Taking the adverse factors mentioned above into consideration, Bangladesh needs to ensure good governance and strengthen investment-facilitating factors to attract the Japanese investment.<sup>49</sup>

In this regard, the most important factor is to identify the areas, which could be suitable for the Japanese investors. With easy access to international sea and air routes, Bangladesh can serve as the ideal springboard for the manufacturers to launch into the growing markets of the world. It could be advantageous for Japan to invest in

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<sup>47</sup> The Japanese investment in Bangladesh ranks fourth among the foreign investing countries, after the USA (about 27.5 percent), the UK (about 12.5 per cent) and Malaysia. See, "Bangladesh-Japan Trade and Investment", *Dhaka Courier*, March 26, 2004.

<sup>48</sup> According to *Investment Climate Survey (ICS)* of the World Bank (WB), tax rate of 35.8 per cent is a constraint to investment in Bangladesh. It is one of the highest in Asia. Again, in terms of ease of doing business index, Bangladesh in 2005 ranked 65. See, A. K. M. Atiqur Rahman, *op. cit.*, p. 37.

<sup>49</sup> Strengthening investment-facilitating factors mean reducing government various restrictions on private investments, more liberalisations of economic policies, removing complicated laws applying to foreign investments and collaborations, reducing corporate tax, reducing risk and cost of doing business, etc.

both service and manufacturing sectors of Bangladesh due to availability of skilled and semi-skilled manpower at the most competitive rates, cheap price of land and utilities, as well as the ever-improving infrastructure of the country. The Japanese private investors may take keen interest to invest in gas-based value added products like the development of compressed gas as well as its marketing in Bangladesh. With regards to the transport sector, there exists ample scope for the Japanese investments to expand and develop transport facilities. There are also enormous potentials to the growth of RMG industries in Bangladesh. To explore these potentials, the Japanese entrepreneurs need to come up with more investment proposals.<sup>50</sup>

It has been learnt that Japan is trying to relocate its 'sunset industry', *i.e.*, the SMEs because of higher labour cost that makes the current subcontracting *keiretsu* framework almost non-viable.<sup>51</sup> Since the big companies are being compelled to import spare parts, most of the SMEs in Japan are now in low spirits. It is observed in recent years that at least 70 per cent of the Japanese SMEs have been looking for outside partners simply for the sake of their survival.<sup>52</sup> Bangladesh, with its cheaper labour force, can exploit this opportunity and could be an ideal place for the Japanese investors.

## 5. Concluding Remarks

Bangladesh and Japan are maintaining friendly relations and mutually beneficial economic cooperation since the recognition of Bangladesh by Japan in early 1972. While bilateral trade relations between the two countries and Japanese FDI to Bangladesh have not been substantial, the disbursement of ODA to the recipient country

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<sup>50</sup> Considering economic and strategic significance, Japanese investments is now determined by the geographical distance between home and host countries in Asia. In this respect, Japan prefers China, India, Vietnam, etc. for investment. See, Monir Hossain Moni, *op.cit.*

<sup>51</sup> Tokyo-Dhaka cooperation, *The New Nation*, July 17, 2005.

<sup>52</sup> *Daily Yomiuri*, November 28, 2004.

has been of high quantity. However, recent Japanese decision to curtail the disbursement of its ODA to the developing countries due to ongoing economic recession in the country is contributing to the decline in the volume of Japanese aid to Bangladesh. On the other hand, the total amount of bilateral trade between the two countries has been tilted in favour of Japan and the flow of FDI to Bangladesh has been decreasing. At this critical juncture, Bangladesh needs to strengthen friendly relations with Japan to ensure the flow of ODA, while Japan as well may need to continue the disbursement of ODA to promote pro-poor policy and 'self-help' assistance program for the economic development of Bangladesh. In case of trade relations, the top most priority is to bridge the trade gap as much and as fast as possible. For this, Bangladesh has to reform its trade policy to reduce the cost of doing business and to attain price competitiveness, while Japan needs to open its vast market widely for the Bangladeshi products. The two countries may consider a trade agreement to exploit the full potentials of bilateral trade. In case of FDI, Bangladesh has to ensure investment-facilitating services to attract Japanese investment. It is also necessary to identify the areas, such as, manufacturing sectors, gas-based value added products, transport sector and SMEs, that could be suitable for Japanese investment. In this regard, the Japanese investors need to come to Bangladesh with an open mind and take the responsibility of contributing to sustainable socio-economic development in Bangladesh.

*Delwar Hossain*

## **SOUTH ASIA-JAPAN RELATIONS: THE EMERGING REGIONAL PERSPECTIVE**

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### **Abstract**

Following the demise of the Cold War, both South Asia and Japan started to demonstrate renewed interests in broadening and deepening their mutual relationship. Particularly, since the mid 1990s, Japan's interests in the multilateral process of South Asia have significantly increased that reflects her strong support for multilateral frameworks at regional and global levels. The process in South Asia-Japan relations developed gradually but steadily and culminated in Japan being accorded the status of an observer in SAARC in 2005. The paper argues that there is a considerable scope of viewing South Asia-Japan relations from a regional perspective. It further argues that the asymmetric features of South Asia-Japan relationship can be melted into the wider focus of regional linkages instead of bilateralism. Issues, determinants and parameters that are contributing to build this regional perspective are becoming visible gradually. As a practical policy guide to involvement in South Asia, Japan considers three criteria for South Asia-Japan cooperation. These are: regional problems, common challenges, and issues where Japan has skills and expertise. The instrumentalization of their regional linkages depends on the issues which have both bilateral and multilateral implications. Apart from ODA, trade and investment, a host of factors such as grassroots networks, labor migration, Japan's peace-building

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**Delwar Hossain**, Ph.D., is an Associate Professor, Department of International Relations, University of Dhaka, Bangladesh. His e-mail is: [h.delwar@gmail.com](mailto:h.delwar@gmail.com)

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role and cultural borrowing is coming into the forefront of South Asia-Japan regional partnership.

## 1. Introduction

South Asia and Japan are linked through history, geography, culture, religion and politics. *Buddhism* in Japan during the Prince Shotoku era<sup>53</sup> or the visit of Rabindranath Tagore, Asia's first Nobel laureate, to Japan in 1916 or support of Indian nationalists for Japan's Pan-Asianism in the late 1920s give some glimpses of the historical linkages between South Asia and Japan. More importantly, they have a long history of diplomatic relations in the post-war period. Immediately after the end of American occupation in Japan, India and Pakistan established formal diplomatic relations with Japan in 1952. On February 10, 1972, less than two months after the country became independent, the government of Japan recognized Bangladesh and opened its diplomatic mission in Dhaka.

Despite a robust historical background and the establishment of diplomatic relations long ago, the relationship between South Asia and Japan remains under-explored or even neglected at state level. A very few scholars from South Asia and Japan have done rigorous and substantive works on different dimensions of this relationship.<sup>54</sup> To Japan, South Asia could not evoke much interest in terms of trade and investment opportunities. As many analysts identify South Asia-Japan relationship with a low-key profile, both remained distant neighbours for decades. The whole Cold War era witnessed the same

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<sup>53</sup> During the Shotoku Era, Buddhism flourished. Temples were built and a sixteen-foot bronze image of the Buddha was built. According to *Nihongi (Annals)*, there were about 46 Buddhist temples, 816 priests, and 569 nuns by the year 623. Prince Shotoku encouraged industry and saw that the sick and orphans were cared for. He also promoted transportation and communication, and set rules to protect animals.

<sup>54</sup> Abul Kalam, *Japan and South Asia: Sub Systemic Linkages and Developing Relationships*. Dhaka: The University Press Ltd., 1996; Purnendra Jain, ed., *Japan-South Asian Relations: Distant Neighbors*. New Delhi: Sage, 1996; M.D Dharamdasani, *Japan's Role in South Asia*. New Delhi: Kanishka Publishers, 2003.

pattern of relationship with formal visits of statesmen, government officials, businessmen and limited non-official interactions.

Scholars and observers of South Asia-Japan relations have predominantly based their views on traditional realist assumptions. To them, power, diplomacy, state-centrism, etc. are the determining factors behind this relationship. Some have also attempted to perceive it from neo-liberal view point, but the underlying focus has not been much different from the realist agenda. In fact, they transformed their inquiry into perennial equation of costs and benefits, and power and security. This is a typical Cold War determined framework of global relations that dominated the agenda of research during that time.

Following the demise of the Cold War, both South Asia and Japan started to demonstrate renewed interests in broadening and deepening their relationship. Kesavan and Varma, Dharamdasani, and Jain clearly point out this fact in their studies on Japan-South Asia relations.<sup>55</sup> Kesavan and Varma argue that the reasons for low profile status of Japan-South Asia relations are mainly ideological inhibitions and the inward looking economic policies of South Asian countries.<sup>56</sup> Dharamdasani also shares the view that absence of liberal economic policies was the primary factor behind this situation.<sup>57</sup> Unsurprisingly, they joined the chorus of optimists that the relationship between South Asia and Japan has entered into a new era in the post-Cold War period.

Since the mid-1990s, Japan has been showing a broadening of her interests in South Asia's multilateral process. Consistent with Japan's strong support for multilateral frameworks at regional and

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<sup>55</sup> M.D. Dharamdasani, *Japan's Role in South Asia*, New Delhi: Kanishka Publishers, 2003; K.V. Kesavan and Lalima Varma. eds., *Japan-South Asia: Security and Economic Perspectives*. New Delhi: Lancers Books, 2000; Purnendra Jain, ed., *Japan-South Asian Relations: Distant Neighbors*, New Delhi: Sage, 1996.

<sup>56</sup> Kesavan and Varma, *op.cit.*

<sup>57</sup> Dharamdasani, *op.cit.*

global levels, an emerging regional focus can be observed in South Asia-Japan relations based on inter-regional cooperation framework that culminated in Japan being accorded the status of an observer in SAARC in 2005. Both South Asia and Japan have been embracing changed notions and realities in the context of changed global environment marked by globalization and new regionalism. It is important to do away with traditional donor-recipient relations in which the role of Japan in South Asia is basically seen as donor country. New perspectives need to be explored for explaining South Asia-Japan partnership.

As an empirical referent, perhaps the expanding relations between South Asia and Japan at regional level could help understanding new insights and trends. In view of its economic predicaments, South Asia's growing dependence on aid, investment, trade and technology cannot be a temporary phenomenon. Japan with its deeper economic engagement and vast historical experience could play a significant role in promoting a new regional partnership with South Asia. In this context, the paper makes an attempt to understand South Asia-Japan relations in a new perspective which is primarily based on multilateral process. The central argument is that the recent developments in South Asia-Japan relations contribute to the strengthening of regional partnership between the two asymmetric parts of Asia.

The paper is structured into five sections. Section one briefly identifies the motives behind Japan's renewed interests in South Asia while section two dwells on the asymmetric factors between South Asia and Japan. Section three highlights the importance of regional approach in Japanese foreign policy and the determinants of Japan's regional approach in South Asia. Section four investigates Japan's relations with regional/sub-regional organizations in South Asia. It also briefly outlines the agenda of partnership between South Asia and Japan. Finally, section five shows how the partnership between South Asia and Japan can be instrumentalized and what are the major instruments in this regard.

## **2. Why is Japan Interested in South Asia?**

We may begin our inquiry into the issues as mentioned above with the question: why Japan is interested in South Asia? One way of dealing with this question is through highlighting politico-strategic interests, though this may be contrary to popular perceptions. With declining 'economism' in its foreign policy guided by an urge for a new self-image and status, Japan may find it worthwhile to involve in the politico-strategic developments in South Asia. There is no doubt about the fact that in the post-Cold War era the geo-strategic importance of South Asia has significantly been increased. Besides, unlike some East and Southeast Asian countries, South Asia has no historical animosity towards Japan. South Asia is also significant to wider Asian integration given its geostrategic location.

Several factors may be furnished to explain Japan's security interests in South Asia. First, Japan considers South Asia strategically important as it controls the sea-lanes which are vital for Japan's energy security and trade flows. As Jain points out, the region's geostrategic potentials are now pulling Japan as a world power further into the international power politics of this complex and contested region that many nations access via the Indian Ocean.<sup>58</sup> Japan is either the largest or the second largest trade partner of many of littoral and hinterland countries of the Indian Ocean. Japan imports oil and raw materials especially from Middle East, South Asia and Southeast Asia. Oil exports of United Arab Emirates (UAE) and Saudi Arabia to Japan, and Malaysian and Sri Lankan trade with Japan are dependent on sea routes of the Indian Ocean. In fact, the Indian Ocean retains some crucial significance for Japan – this Ocean separates Japan from the Middle East. Japan has already become an observer of Indian Ocean Rim Regional Cooperation (IOR-ARC).

Second, in recent years, Japan has been taking proactive role in regional and global peace-building and peace-keeping initiatives. Based on "comprehensive security" policy formulation, Japan maintained vigorous political and security role in Southeast Asia through its active participation in the ARF process, sending Japanese

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<sup>58</sup> Pumendra Jain, "Japan's Interest in Indian Ocean", *Journal of Indian Ocean Studies*, Vol. 11, No. 1, April 2003, p. 8-9.

troops in its first Peacekeeping Operation (PKO) to Cambodia in 1992, positive role in the South China Sea conflict and holding several multilateral conferences for resolving the Cambodian political turmoil. This is certainly a new direction in Japanese foreign policy.

Third, realists argue that the 'China factor' has enhanced the importance of South Asia in Japan's foreign policy projections.<sup>59</sup> Gradually, China is emerging as one of the key concerns for Japan. A report on '*Basic Strategies for Japan's Foreign Policy in the 21<sup>st</sup> Century*' by the Task Force on Foreign Relations states:

(T)he relationship with China is the most important theme in Japan's foreign policy at the outset of the 21<sup>st</sup> century. For both countries, the relationship is one that interweaves 'cooperation and coexistence' with 'competition and friction...China's military buildup can pose a serious threat to Japan and other countries of the region. Japan should make strenuous demand for transparency from the Chinese side as regards China's burgeoning military budget.<sup>60</sup>

China is also strategically linked to South Asia. Although South Asian countries have peaceful and friendly relations with China, India is still haunted by the Sino-Indian border war of 1962. The growing military power of India is often justified as a response to the Chinese military strength. On the other hand, the growing assertion of Japan being an 'ordinary power'<sup>61</sup> in the world may cause confrontation with China. Under this situation, Japan's political role in South Asia can be of immense strategic value in the future.

Fourth, Japan is also concerned about global nuclear proliferation, since non-proliferation is a strong principle of Japan's foreign policy as well as ODA guidelines. Japan strongly believes

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<sup>59</sup> Personal interview with the Ministry of Foreign Affairs (MOFA), Japan official also reveals this concern.

<sup>60</sup> Available online, [http://www.kantei.go.jp/foreign/policy/2002/1128f\\_e.html](http://www.kantei.go.jp/foreign/policy/2002/1128f_e.html), accessed on 12 June 2006.

<sup>61</sup> Takashi Inoguchi uses the term to define Japanese power in the contemporary period.

that nuclearization endangers peace and stability at regional and global levels. Hence, the nuclear tests conducted by India and Pakistan in 1998 draw Japan's attention. Besides, the overall security vulnerabilities of this region influence Japan as a peace-loving nation in the world.

Fifth, the diplomatic support from South Asian countries can be of vital importance for Japan in international forums. For example, Japan actively sought the support of smaller powers of South Asia in her quest for a permanent seat in the United Nations Security Council.

Another way is to look at the economic and cultural rationale behind Japan's engagement in South Asia. Although it appears to be a one-way traffic as South Asia-Japan relationship is practically identified with ODA, it has been changing over the past years. Given continued rapid and sustained growth of GDP in South Asia and the booming of Indian economy, Japan may find economic incentives to pour FDI and expand trade relations. A study by Goldman Sachs shows that India's economy could be larger than Japan's by 2032, and China's larger than the US by 2041. India's economy could be larger than all but the US and China in 30 years. India has the potential to show the fastest growth over the next 30 and 50 years and close to 5 percent as late as 2050 if development proceeds successfully.<sup>62</sup>

The economic prospects of South Asia are beyond any doubt. Japan is also closely watching these economic changes in South Asia. Despite perennial interstate and intrastate conflicts, and the high prevalence of corruption, the average GDP of South Asia is growing at the rate of 6 per cent and above for the last ten years. As indicated earlier, South Asian countries have opened their economies and the region is currently undergoing a number of bilateral, sub-

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<sup>62</sup>Nagesh Kumar, *RIS Discussion Paper, 2005*, available online, [http://www.newasiaforum.org/dp100\\_pap.pdf](http://www.newasiaforum.org/dp100_pap.pdf) accessed on 18 July 2006; Goldman Sachs Economic Research, World Economics Paper No. 134. Available online, [http://www2.goldmansachs.com/hkchina/insight/research/pdf/BRICs\\_3\\_12-1-05.pdf](http://www2.goldmansachs.com/hkchina/insight/research/pdf/BRICs_3_12-1-05.pdf) accessed 18 July 2006.

regional and regional free trade agreements (FTAs) facilitating market integration at regional level. Major countries of the region such as India and Pakistan have developed close cooperation with other major economic powers and regional organizations like ASEAN, EU and MERCOSUR. Thus, the Cold War image of South Asia has largely been changed particularly in economic arena.

Clearly, the South Asian countries can be benefited enormously from their relations with Japan both bilaterally and regionally. Japan is a US\$4 trillion economy. It has enormous resources and technological advantages. The engine of growth in the developing countries of Asia is the private sector, not the government sector. In this regard, advanced technology and investment can be brought to this region by Japan much more than China or any other country. The Japanese private sector could be a major driver of economic growth in developing Asia, bringing know-how, technology and investment to Asia's budding private sector. Combined with Japanese official aid to strengthen the provision of public goods and services, Japan has a significant role to play in developing Asia's drive to improve living standards and reduce poverty.<sup>63</sup>

Culturally, South Asia and Japan share a common Asian identity and destiny. Unless Japan becomes a model to Asian countries for which Japan is investing a lot, its global acceptability cannot be established in true sense. Compared to other regions in Asia, Japan has a lot to do for South Asia. Perhaps, understanding this reality Japan has initiated several programs for enhancing its cultural relations with South Asia. Too much focus on the economy is portraying a partially distorted image of Japan not only in South Asia, but also in the developing world in general. The rich heritage of Japanese culture, its equally rich literature that so far produced two nobel laureates, the vibrant world of Japanese art and music – all are somehow overshadowed by the domination of economic and

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<sup>63</sup> Interview appeared in IHT/Asahi: May 7, 2005.

business interests in bilateral ties.<sup>64</sup> There are indications that significant section of business and political establishment in Japan is positive about a strong partnership between South Asia and Japan.

### **3. A Hostage to Aid and Asymmetry?**

A traditional outlook equipped with the canons of realism/neo-realism and liberalism/neo-liberalism demonstrates a deep sense of asymmetry between Japan and South Asia. It largely focuses on their opposite economic status and cultural background. Many observers and analysts consistently highlight this factor while conducting their studies on Japan and South Asia. The question of asymmetry between Japan and South Asia overwhelmingly lies with the issues of economic development, security perception and cultural background. The overriding importance on economic factors and asymmetric issues only gives a reductionist view of South Asia-Japan relationship. It is observed that whether it is Japan or any South Asian country the overwhelming thrust is given on ODA. The spectacular economic recovery of Japan in the 1960s made her a donor country in the world. Japan introduced overseas development assistance (ODA) for the developing countries in 1954.

The economic aspect of Japan-South Asia relationship was kick-started in the same year when India became the first recipient of Japanese ODA in South Asia. Consequently Japan emerged as a major donor country for all South Asian states. The economies of South Asia gradually and steadily became dependent on the Japanese ODA along with other Organization for Economic Co-Operation and Development (OECD) donors. Aid continues to be a primary determinant for mutual relationship between Japan and South Asia. The traditional way of facing global problems such as poverty, disease, refugees, or environmental damage, has been for developed countries to offer their money, human resources, and technology. In response to these challenges, Japan has consistently cooperated with

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<sup>64</sup> Monzurul Huq, "Japan and the Developing World: The Unequal Equals", 2003, available online, [http://www.glocom.org/opinions/essays/200302\\_huq\\_japan/index.html](http://www.glocom.org/opinions/essays/200302_huq_japan/index.html) accessed on 25 June 2005.

other countries. Through its global networks, development assistance has become one of the most powerful mechanisms of its foreign policy. Japan has chosen to define itself on the international scene through an aggressive development policy. Japan has made active contributions in the area of Official Development Assistance. With more than US\$15 billion of ODA in 1999, for the ninth straight year, Japan maintained its position as top donor country in the world. Over the past 50 years, Japan adapted its ODA policies of procurement, environment, human resources management, security vs. multilateral aid, and loans vs. grants to span globally, in order to promote its desired role in international and increasingly transnational community.

**Table 1: Japan and South Asia: Some Basic Differences**

Country/ Region	HDI	GDP (billion US\$)	GDP Per Capita (US \$)	Life Expectancy	Education Index	Military Expenditure (% of GDP)	Poverty Line	Conventional Arms Transfers (US\$ m)	
								Imports	Exports
Japan	0.943	4,300.9	33,713	82	0.94	1.0	Nil	195	0
Bangladesh	0.520	51.9	376	62.8	0.45	1.2	49.8	26	0
India	0.602	600.6	564	63.3	0.61	2.1	28.6	2,375	22
Nepal	0.526	5.9	237	61.6	0.53	1.6	42	32	0
Pakistan	0.527	82.3	555	63	0.44	4.4	32.6	344	10
Sri Lanka	0.751	18.2	948	74	0.83	2.7	25	6	0
South Asia	0.585**	753.0**	536*	64.9*	0.57.2*	2.4*	35.8*	2,783**	32**

Source: *Human Development Report 2005*.

\* Average is calculated on five major South Asian countries.

\*\* Total of five countries.

\*\*\* All figures are in US Dollar

Table-1 shows that there are some fundamental areas of differences between Japan and South Asia both at bilateral and regional levels. It is demonstrated that there is a huge gap between Japan and the South Asian countries at individual level. Even the whole region cannot match with Japan in economic terms. While Japan alone has a gross domestic product (GDP) of US\$4300.9 billion, the whole South Asia region has only US\$753 billion (17.5% of Japan's GDP). By per capita GDP, it is a big contrast. Japan's per capita GDP is US\$33,713 while the average South Asian per capita GDP is only US\$536 (1.59% of Japan). Sri Lanka, the most developed country in South Asia has only US\$948 as per capita GDP. Apart from these selected indicators, Japan and South Asia are contrasted in other ways. For example, while Japan is the second largest donor country in the world, all the South Asian countries are recipients of overseas development assistance. Japan is a creditor nation; South Asia is a debt-ridden region. Japan is the second largest economic power in the world and a leading member of the OECD whereas South Asia belongs to the developing world with Bangladesh, Bhutan and Nepal as the least developed countries. It shows the asymmetric features of South Asia-Japan relationship, which draws enormous interests from the realists. The fact of the matter is that such view does not help understanding this relationship in comprehensive perspective.

#### **4. The Regional Perspective**

The newly found Japanese interest in pursuing FTAs bilaterally and regionally represents one of the most significant departures in Japanese trade diplomacy of the past half-century. As Ravenhill argues, Japan had previously been the most significant standard bearer for a multilateral, non-discriminatory trading regime, its criticism of discriminatory agreements going as far back as the Treaty of Rome and hostility to the creation of the European Common Market.<sup>65</sup> Perhaps, it was because of the Cold War dynamics that Japan was mainly engaged with ASEAN to demonstrate its commitment to regional cooperation. In case of

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<sup>65</sup> John Ravenhill, "Is Japan a 'Normal' Power? Japanese Leadership and Asian Regional Organizations", *Seminar Transcript*, The Daiwa Anglo-Japanese Foundation, London, 2002.

ASEAN, Japan had consistently supported and systematically assisted the growth and consolidation of this regional organization, which has, by now, become a linchpin of regional integration in this region.<sup>66</sup>

Immediately after the demise of the Cold War, Japan had not only employed efforts at initiating regional cooperation in the Asia-Pacific region, but also took a leadership role. For example, Japan played a pioneering role in the establishment of Asia Pacific Economic Cooperation (APEC) in 1989.<sup>67</sup> Japan strengthened its relationship with ASEAN with a new framework of ASEAN+ 3. Being aware of the limitations of global institutions such as the UN or the WTO and influenced by the emergence of the numerous trading blocs and agreements, Japan has felt the need for a strengthened intraregional and interregional cooperation networks. In January 2002, a milestone was seen in Japan's regional trade relations – the signing of its first bilateral free trade agreement with Singapore. As figure 1 demonstrates Japan has become part of several such initiatives which include ASEAN+ 3, APEC, ARF, Japan-China-ROK trilateral cooperation, Asia Europe Meeting (ASEM) and Asia Cooperation Dialogue (ACD).

**Figure 1: Regional and Interregional Networks of Japan**

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<sup>66</sup> Sueo Sudo, *The International Relations of Japan and Southeast Asia: Forging a New Regionalism*, London and New York: Routledge, 2002.

<sup>67</sup> Ravenhill, 2002, *op.cit.*



is beneficial for South Asia and Japan<sup>69</sup>. Second, human security concerns drive Japan for more involvement in South Asia. Third, spirit of global partnership for achieving the UN MDGs<sup>70</sup> may also influence Japan to get involved as the region faces massive poverty, widespread illiteracy, lack of basic healthcare services etc. Fourth, new peace-building role of Japan prompts the country to involve in such cases existing in South Asia – for example, the Tamil conflict and the Afghan crisis. Finally, as a practical policy guide to involvement in South Asia, Japan considers three criteria for South Asia-Japan cooperation – regional problems, common challenges and issues where Japan has skills and expertise.<sup>71</sup> These factors clearly indicate a regional dimension of Japan's engagement in South Asia.

## **5. Japan's Role in Deepening South Asia's Regionalism**

### *5.1 SAARC-Japan Cooperation*

The history of SAARC-Japan cooperation dates back even before the formal launching of the SAARC in 1985. As Sengupta points out, Japanese perception of South Asian cooperation has remained positive since 1984. In the same year, foreign minister Shintaro Abe welcomed the establishment of South Asian Regional Cooperation (SARC) which was changed to SAARC in the following year (1988). Prime Minister Nakasone sent a warm message of congratulation to President H. M. Ershad of Bangladesh for hosting the First SAARC Summit in Dhaka and expressed his earnest hope that SAARC would generate momentum for regional cooperation.

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<sup>69</sup> Based on personal interview with Shinsuke Shimizu, Director, Southwest Asia Division, MOFA, Tokyo, Japan on 31 August 2006.

<sup>70</sup> The Millennium Declaration by the UN in 2000 commits the international community and member states of the UN to the achievement of eight major goals, mostly by 2015. These goals include poverty reduction, universal primary education, child mortality, maternal health, combating HIV/AIDS, environmental sustainability etc.

<sup>71</sup> Shimizu, 2006, *op. cit.*

Three days later, the foreign office of Japan issued a formal statement welcoming SAARC and hoping that SAARC would promote cooperation among its seven members and contribute to peace and development in the region.<sup>72</sup> In April 1986, Yasuki Ono, head of the Southwest Division in the Japanese ministry of foreign affairs, observed that Japan had a very positive perception of SAARC. Japan considered the creation of SAARC as the most constructive development of the time in Asia. Ono further added that if opportunities were available, Japan would like to do for the SAARC what it had been doing for ASEAN in the realm of technical training.<sup>73</sup> This is the beginning of SAARC-Japan cooperation which clearly demonstrates a strong and genuine interest of Japan in regional cooperation process in South Asia. Since then, Japan has been closely observing the developments of SAARC. Prime Minister Koizumi sent a message of congratulations on the occasion of the 13<sup>th</sup> Dhaka Summit held in 2005.

A significant initiative in this direction came through the launching of Japan-South Asia Dialogue in 1991. In 1991, Japan's Ministry of Foreign Affairs organized the first Japan-South Asia Dialogue. The primary purpose of the forum was to deepen Japanese knowledge of South Asia and develop linkages with the South Asian leaders.<sup>74</sup> The meeting took place nineteen months after the visit of Prime Minister Toshiki Kaifu to the region, the first visit to India and Pakistan in six years by an incumbent Japanese prime minister, the first to Bangladesh since its independence, and first to Sri Lanka in thirty years. The subsequent meetings took place in June 1992, February 1993 and February 1995. This cemented Japan's relations with SAARC by becoming its dialogue partner in 1993. Japan is the

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<sup>72</sup> Bhabani Sengupta, *South Asian Perspectives: Seven Nations in Conflict and Cooperation*. Delhi: B.R. Publishing Corporation, 1988.

<sup>73</sup> *Ibid.*

<sup>74</sup> Navnita Chadha Behera, Paul M. Evans and Gowher Rizvi, *Beyond Boundaries: A Report on the State of Non-Official Dialogues on Peace, Security and Cooperation in South Asia*. Toronto: University of Toronto, 1997.

only country outside SAARC to have created a special fund in support of SAARC known as Japan-SAARC Special Fund in 1993. The SAARC-Japan Special Fund has been established, under which the Government of Japan has agreed to finance activities/programs relating to SAARC region. Letters were exchanged between the Secretary-General and the Japanese Ambassador in Kathmandu on 27 September, 1993, confirming the acceptance of the Memorandum on the Guidelines for the Fund.

The Fund established entirely with contribution from the Government of Japan consists of two components. The allocation under Component-I is to be used to finance selected programs/activities identified and managed by the member states. Component-II would be for the programs/activities identified and managed by the Government of Japan. In fact, Japan had shown interest in contributing 20 per cent of Japanese ODA to a common SAARC Fund.<sup>75</sup> The current ADB President, Haruhiko Kuroda who is happened to be a Japanese national, also shows tremendous personal interest about regional cooperation in South Asia. In a meeting of SASEC, Kuroda noted that growing regional cooperation in South Asia can directly contribute to the physical integration of Asia because of its central position as a land bridge between neighboring regions.<sup>76</sup>

While visiting South Asia in 2000, the former Japanese Prime Minister Yoshiro Mori stated that SAARC could "provide a framework for stable development in the South Asia region." Subsequently, Japan was seeking observer status since 1999. Finally, Japan was accorded an observer status of SAARC during the 13<sup>th</sup> SAARC Summit held in Dhaka in 2005. Japan signed a MoU long before its acceptance as an observer state. This has further cemented South Asia-Japan relations on multilateral front. Japan considers the expansion of SAARC very significant as it opened up new ways for cooperation at inter-regional level. The idea of global partnership

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<sup>75</sup> Kishore C Dash, "The Political Economy of Regional Cooperation in South Asia". *Pacific Affairs*, Vol. 69, Number 2, 1996.

<sup>76</sup> *Himalayan Times*, Nepal, 27 July 2005

that Japan actively pursues in building her relations with many developing countries at bilateral and regional levels can also be an important component of the framework of South Asia-Japan relations. In fact, global partnership is considered as one of the major Millennium Development Goals as embodied in the Millennium Declaration adopted unanimously by the members of the United Nations in September 2000. In 2002, Japan's contribution of ODA to multilateral institutions was 27.9% of the total Japanese ODA which is the second largest in the world after the USA.<sup>77</sup> Japan is strongly committed to pursue this goal as it coincides with its search of bigger role in the global arena.

It is not only a matter of Japan's interest in the region, but also the strong enthusiasm of South Asian countries to engage Japan in the region. People's reactions towards the decision of SAARC to grant observer status to Japan are very warm. A Pakistani newspaper evaluates Japan's involvement with SAARC by expressing optimism that it will be ushering in an era of economic prosperity in the region. It will help in countering India's hegemonic attitude. Current economic lopsidedness between South Asia and Japan may be reduced.<sup>78</sup> Pakistan Prime Minister Aziz mentioned that the entry of Japan and China will have a positive impact on the working of the grouping. India particularly favored the case of Japan when all other states were supporting the case of China.<sup>79</sup> Japan being an OECD member and an economy with strong technological expertise, could assist SAARC countries with the financial and technical expertise to meet the challenges of globalization.

## *5.2 BIMSTEC and IOR-ARC-Japan Cooperation*

Another way of strengthening South Asia-Japan relationship is through developing collaboration and partnership between Japan and BIMSTEC. Japan shows special interest in BIMSTEC as it includes

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<sup>77</sup> *Japan Statistical Yearbook 2005*

<sup>78</sup> *Dawn*, 8 August 2003

<sup>79</sup> *The Daily Times*, 14 November 2005

ASEAN members and serves as a bridge between SAARC and ASEAN. To Japan, BIMSTEC has both economic and strategic significance. The Sasakawa Foundation has sponsored a three-year project to initiate a Dialogue process on fostering cooperation between Japan and BIMSTEC countries. Several rounds of conferences/workshops identify some sectors for cooperation between Japan and BIMSTEC which include i) investment, ii) energy, iii) tourism, iv) trade, v) technology, and vi) transport etc.<sup>80</sup> Some analysts see a good prospect for BIMSTEC-Japan Economic Partnership Agreement (EPA) in near future.<sup>81</sup> Studies show a reasonable amount of trade complementarities among the BIMSTEC countries in terms of root cause analysis (RCA) and factor intensity of export.<sup>82</sup>

As a developed country, inclusion of Japan is expected to increase trade complementarities. Japan has already signed an EPA with Thailand, a member of BIMSTEC and ASEAN. Japan has strong economic relations with Myanmar. Besides, India is strengthening its economic ties with Japan. Gradually, Japan can find BIMSTEC as another route to Japan's relations with South Asian countries. Japan also shows its interest in sub-regional cooperation in South Asia. An IDE-JETRO sponsored study on *Sub-regional Relations in the Eastern South Asia: with Special Focus on Bangladesh and Bhutan* in 2004 demonstrates such interest of Japan.

Another inter-regional route to building Japan's regional connections with South Asian countries is through the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). Japan is an observer of IOR-ARC. The charter of IOR-ARC was signed in 1997

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<sup>80</sup> The first international workshop was held in December 2005 at Kolkata, India while the first international conference entitled *BIMSTEC-Japan Comprehensive Economic Cooperation: Bangladesh Perspective* was held in Dhaka in July 2006.

<sup>81</sup> Masahiko Ebashi, *Deepening BIMSTEC-Japan Economic Relations: Tasks Ahead*, Kolkata: Centre for Studies in International Relations and Development, 2006; Rahman, 2006, *op. cit.*

<sup>82</sup> ABM Ziaur Rahman, et al, *op.cit.*

on the basis of the principles of sovereign equality, territorial integrity, non-interference, peaceful coexistence, respect for bilateral and multilateral cooperation, exclusion of divisive issues from IOR-ARC deliberations and adoption of the method of consensus in decision-making process. It has been designed to set directions for the economic and trade policy in IOR and reaffirm policy of “open regionalism” and inclusivity of membership, due to proliferation of regional economic and political groupings. The charter of IOR-ARC aims to promote trade liberalization and flow of goods, services and human resource, and infrastructural development. IOR-ARC faces conceptual problems of cooperation and finds it difficult to handle the debate arising from complex nature of membership. Disagreements among members to include new member is a serious problem for this organization. The basic nature of this organization is inter-governmental cooperation. IOR-ARC has its Coordinating Secretariat based in Mauritius headed by an Executive Director assisted by a Director. The IOR-ARC is now at an important crossroads in its efforts to strengthen regional integration and development.

### *5.3 Guiding Issues for Building Regional Linkage*

An international conference entitled *Japan-SAARC Cooperation* held in Dhaka in July 2006 recommends the following areas for South Asia-Japan multilateral cooperative framework.

1. To engage/provide/facilitate in mitigating disasters both in terms of disaster preparedness and disaster management and environmental protection in SAARC region through technical assistance, capacity building programs and the development of projects where Japanese have expertise and can contribute in substantial way to human security.
2. To increase greater connectivity in the region through expansion of infrastructure facilities for goods and services, and fostering communications across border among the representative from business, academia, civil society groups and media.

3. To strengthen capacity building in the institutions of SAARC countries for offering courses, training facilities, organization of workshops, conferences and building networks of support in media, academia, and civil society for advocacy and awareness of Japan-SAARC Cooperation.

Taking some clues from these recommendations, three areas are considered for Japan's regional linkage with South Asia. First, disaster management is a critical area of collaboration between South Asia and Japan.<sup>83</sup> South Asia experienced two biggest natural disasters in the world over the past year – the Asian Tsunami and the Kashmir Earthquake. The two calamities killed over 100,000 people in South Asia and setting up a system for the region to help deal with natural disasters was on top of SAARC's agenda during the 13<sup>th</sup> Summit of the organization held in Dhaka in 2005.

Second, Japan is deeply committed to poverty alleviation as one of the major Millennium Development Goals (MDGs) declared by the UN in 2000. Japan is also directing much of its huge ODA for this purpose. Despite being a vast region of 1.4 billion people, or almost one quarter of the world's population, South Asia accounts for only two per cent of the world's GDP. The stark fact is that out of almost 700 million people living in poverty throughout Asia, some 430 million live in South Asia, which is 40 per cent of the world's total poor. As Kuroda points out, clearly, we cannot achieve the MDGs in Asia without achieving them in South Asia first.<sup>84</sup> Hence, poverty alleviation constitutes a major area for South Asia-Japan cooperation. While poverty alleviation is a single most specific concern of Japan, the overall thrust of Japan's engagement is human security. Japan's ODA focuses on a broad range of issues related to socio-economic empowerment – poverty alleviation, sanitation, education, water, health care and waste management.

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<sup>83</sup> Shinsuke Shimizu, Director, Southwest Asia Division, MOFA reiterates the importance of disaster management for Japan's multilateral cooperation in South Asia as revealed in personal interview taken on 31 August 2006.

<sup>84</sup> *Himalayan Times*, 27 July 2005

Third, Japan is particularly concerned about global and regional peace. Since the end of the Cold War, Japan has been vigorously supporting peace building initiatives in different regions of the world. Japan's ODA has targeted this objective for financial, technical, and logistic supports. South Asia is the most conflict ridden area in the world. Japan can contribute a lot to the enhancement of regional peace in South Asia. In fact, Japan has already involved in the peace process in Sri Lanka and post-conflict reconstruction process in Afghanistan. Thus, peace building and post-conflict reconstruction initiatives constitute a major area for Japan's multilateral engagement. Finally, regional resource utilization projects such as energy projects, water management projects, etc. can be supported by Japan for mutual benefits.

## **6. Instrumentalization of Partnership**

How do South Asia and Japan instrumentalize their partnership? The instrumentalization of South Asia-Japan partnership could be done through three possible channels. The most visible and traditional instrument of Japan's involvement in South Asia is bilateral mechanism. At inter-state level, the expansion of aid, trade and investment gets utmost priority. Second, South Asia and Japan can strengthen their cooperation through regional and sub-regional institutions. Japan could directly engage with the projects and programs of SAARC, BIMSTEC and other sub-regional bodies. By strengthening regional integration processes Japan could contribute to the development and security of the region. In this context, the available mechanisms within the regional institutions particularly in SAARC are very important. Since the conclusion of 11<sup>th</sup> Kathmandu Summit, SAARC has initiated few well meaning institutions. For example, the SAARC Regional Center for Disaster Management, Regional Energy Center, the SAARC Development Fund (SDF), and most notably, SAFTA. Finally, South Asia and Japan may have a plenty of opportunities to collaborate on specific issues of mutual concern. In fact, Japan has been doing this dispersedly for some years. The issues that draw active attention of Japan are poverty alleviation, human security, human development, peace-building, governance, capacity building, knowledge transfer and civil society empowerment.

ODA is a major component of South Asia-Japan relations at the bilateral level (Appendix-1). It can also be equally useful at the regional level in South Asia.<sup>85</sup> The Japanese ODA is comprehensively and multi-dimensionally linked with economic, social, cultural and security issues in the recipient regions or country. ODA is broadly divided into bilateral aid, in which assistance is given directly to the developing countries, and multilateral aid, which is provided through international organizations. Bilateral aid consists of concessional loans (ODA loans, etc.) and grants (grants and technical cooperation). Japan can use ODA for strengthening its regional linkages in South Asia through reallocating and readjusting ODA loans and grants.

The objectives of ODA are critically linked with infrastructure development, poverty alleviation, technology/knowledge transfer and environmental protection. The combined impact of these sectors can be seen on bilateral investment and trade. As Uchikawa points out, improvement of infrastructure facilities may promote intra-regional trade and invitation of FDI from the long term viewpoint<sup>86</sup>. While administering ODA loans to developing countries, the Japan Bank for International Cooperation (JBIC) spells out three missions: i) promotion of Japanese exports, imports and economic activities; ii)

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<sup>85</sup> Ikura Sato, "Suggestions on the Infrastructure and Trade/Investment Promotion in the SAARC Region". Paper presented at International Conference on *Japan-SAARC Cooperation* organized by Japan Study Center, Dhaka University, 31 July 2006; Shuji Uchikawa, "The Possibility of SAARC and the Role of Japanese ODA", Paper presented at the International Conference on *Japan-SAARC Cooperation* organized by Japan Study Center, Dhaka University, 31 July 2006; Masahiko Ebashi, *Deepening BIMSTEC-Japan Economic Relations: Tasks Ahead*. Kolkata: Centre for Studies in International Relations and Development, 2006; Hiroichi Yamaguchi, "Japan's ODA and South Asia", in Kesavan, K.V. and Lalima Varma, ed., *Japan-South Asia: Security and Economic Perspectives*, New Delhi: Lancer Books.

<sup>86</sup> Shuji Uchikawa, "The Possibility of SAARC and the Role of Japanese ODA". Paper presented at International Conference on *Japan-SAARC Cooperation* organized by Japan Study Center, Dhaka University, 31 July 2006.

support for economic and social development as well as economic stability in developing countries and regions; and iii) contribution to the stability of the international environment surrounding Japan.<sup>87</sup>

As an observer of SAARC, Japan is likely to get involved with more regional projects where ODA can be a major source for funding. SAARC has already initiated a regional mechanism called the SAARC Development Fund (SDF) for undertaking regional projects for poverty alleviation, human development and humanitarian emergencies in South Asia. Japanese ODA is channeled through two mechanisms – bilateral and multilateral. Japan can use both the channels for supporting SAARC and other regional integration initiatives. A major contribution of Japan's ODA is poverty alleviation. In the recent times, Japan introduced a program called Minimum Interest Rate Initiative (MIRAI) which indicates a New Yen Loans' concessional scheme with a 0.01% interest rate and 40 years repayment period applicable to low income LDCs.<sup>88</sup> As a part of this program, JBIC signed ODA Loan Agreement with Bangladesh on 26 June 2006 in Dhaka for the first time after the introduction of MIRAI. Under this agreement Japan provided 24,906 million loan assistance to Bangladesh which will carry an interest rate of 0.01% per annum with a repayment period of 40 years including a grace period of 10 years.<sup>89</sup>

Some of the Japanese ODA loan projects in South Asia may focus on regional dimension although they might be located in a specific country. For example, Japan is actively considering the proposal from Bangladesh to build a deep sea port in the Bay of Bengal near Chittagong which would help the entire region for boosting regional trade. In this context, the idea of regional transport integration becomes critically important. There has already been a

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<sup>87</sup> Japan Bank for International Cooperation. *A Brochure*. Tokyo: JBIC Head Office, Undated.

<sup>88</sup> Information is based on the press release published on 26 June 2006 by the Embassy of Japan in Dhaka, Bangladesh.

<sup>89</sup> Different Press Releases published by the Embassy of Japan, 2006, Dhaka.

road network named as Asian Highway conceived by UN ESCAP is in the process of implementation. Japanese assistance to some of the big infrastructural projects has contributed to regional connectivity. For example, Jamuna Bridge, which is the largest one in South Asia, was built over the river Jamuna that divides the land of Bangladesh into East and West. It has also contributed significantly to the expansion of physical connection among Bangladesh, India, Nepal and Bhutan. Japan has also experience in helping ASEAN through ODA. During the 1970s, Japanese ODA was given mainly to ASEAN in order to improve infrastructure facilities which ultimately helped to improve investment environment in the region.

Promotion of Japan's direct investment in the South Asian countries is an important way for realizing closer economic relations between South Asia and Japan. Japan's FDI inflows will promote industrialization and sophistication of industries of host countries, which would be the quickest way to expand manufactured exports and employment in South Asia. Analysts emphasize on FDI from Japan for the development of South Asia.<sup>90</sup> Given the low level of Japan's FDI, both, South Asia and Japan need to find out plausible ways for its expansion (Appendix-1). In order to attract FDI from Japan, it is important for the SAARC countries to remove the bottlenecks. It is urgently needed to improve investment environment. Among other things, it depends on two major factors – regional peace and stability and highly improved infrastructure.

There is also a need for changing Japanese mindset about South Asian business environment. Southeast Asia or China or South Korea has not come to the present stage in one day. Japanese investors also faced problems there at the initial stage. Now situation has greatly changed. Hence, it is a matter of time also. In the recent times, more companies are becoming interested about South Asia for business opportunities. Apart from FDI, there is a need for expansion of trade relations between South Asia and Japan. With growing bilateral economic relations Japan may eye an EPA with SAARC and BIMSTEC in near future. The EPA or FTA mechanism is useful to contribute to economic development of a region. South Asia's

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<sup>90</sup> Sato, *op.cit*; Ebashi, *op.cit*.

reliance on Japan and Newly Industrialised Countries (NIEs) for private flows is increasing in view of the fact that aid is in decline. Japan is also the largest donor to South Asia. Japan could meet South Asian demand for FDI. Japan's success stories are always an example for other regions.<sup>91</sup> Bhargava highlights the problem of squeezing international financial flow and diminished ODA. From South Asian perspective, Japan is an increasingly important trade partner and donor country. South Asian countries can persuade Japan to take greater responsibilities for this region. Japan established South Asia Center in Tokyo to promote trade, investment and tourism.<sup>92</sup> Bhargava suggests some rudimentary issues to build collaboration between South Asia and Japan.

Japan's South Asia policy is gradually focusing on the issues of politico-strategic cooperation. Japan's willingness to play a more prominent role in South Asia in the sphere of peace and security is manifested in the interest shown in its quick response to strategic development in South Asia. Japan criticized the nuclear tests by India and Pakistan and subsequently slapped sanctions on ODA to these two countries. While Japanese Prime Minister Mori was visiting Pakistan in 2000 as the second world leader in the aftermath of nuclear tests, it was reported that Mori raised the issue of nuclear proliferation, and pressed Pakistan to sign Comprehensive Test Ban Treaty (CTBT). In his visit to Pakistan in April 2005, Koizumi expressed concern about nuclear proliferation particularly about the black market network of Pakistan's disgraced nuclear scientist Abdul Qadeer Khan. Through this visit Japan resumed low interest yen loans to Pakistan. Meanwhile, Pakistan indicated that it would support Japanese efforts at acquiring a permanent seat in the UN Security Council.<sup>93</sup>

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<sup>91</sup> K.K Bhargava, "South Asia: The Way Ahead", in K. K. Bhargava, I. N. Mukherjee, Bimal Prasad and Charan D. Wadha, eds., *South Asia: Towards Dynamism and Cooperation*, Delhi: Popular Prakashan, 1994, p.143

<sup>92</sup> *Ibid.*

<sup>93</sup> *Japan Times*, 1 May 2005.

Another important aspect of Japan's security relationship in South Asia is its military cooperation with India. Since 2000, Japan and India have been engaged in joint exercises and dispatching patrol vessels to deal with pirate attacks on ships.<sup>94</sup> In 2005, they conducted their sixth piracy drill which reflects an emerging strategic dimension of Japan-India bilateral cooperation. In fact, the exchange of naval visits by India and Japan began in 1995 after an Indian Naval ship visited Japan. It was reciprocated by a Japanese Naval ship *Kashim* in 1996. Besides, the Japanese entry into a new peace and security discourse in South Asia is demonstrated by Japan's peace-building role in intrastate conflicts in the region. Japan maintains close observation on the developments in Kashmir. More importantly, Japan is involved in the post-war peace-building initiatives and reconstruction process in Afghanistan. Quite surprisingly, Japan is also involved in the peace process in Sri Lanka, the most complex and violent ethnic conflict in the region. Finally, there is a convergence between Japan, on the one hand, and the Non-nuclear Weapons States (NNWS) in South Asia, namely, Bangladesh, Nepal, Sri Lanka, Bhutan and Maldives, on the other, regarding their common concerns about nuclear proliferation in the region. Both Japan and NNWS share the perils of military buildup and arms race in South Asia.

### *6.1 Grassroots Networks*

Apart from the traditional issues of aid, trade, FDI and security, South Asia-Japan partnership has been strengthened by other mechanisms. Firstly, Japan is focusing on grassroots networks over the past years for its relations with South Asian countries. The JICA as the major arm of Japanese ODA contributes to grassroots networks building through its various programs. The JICA has introduced seven principles for its development assistance to the developing countries. These principles clearly reflect its commitment to grassroots networks for development. Some of the principles include: reaching those in need through a people-centered approach; empowering people as well as protecting them; working with both government and local communities to realize sustainable

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<sup>94</sup> *The Japan Times*, 19 November, 2005.

development; and strengthening partnership with various actors to achieve a higher impact from assistance.<sup>95</sup>

JICA has a program called the Japan Overseas Cooperation Volunteers (JOCV) which was founded in 1965. Under this program JICA dispatch the JOCV volunteers to live among the people of the country to which they are dispatched and to pursue their activities with local people, enabling them to ascertain development needs from the viewpoint of those living there. They work with the local people to contribute to the country's socio-economic development, making effective use of their abilities and experiences. It has three major goals: (1) to contribute to the socio-economic development or reconstruction of developing countries and regions; (2) to strengthen friendship and mutual understanding between developing countries and regions, and Japan; and (3) to give back to society the fruits of volunteer activity experience. In 1965, JICA sent the JOCV volunteers to 5 countries which increased to 32 countries in 1985, and 76 countries in 2004. As of August 2005, the total number of the JOCV volunteers was 27,521 which is a major expansion from 486 volunteers in 1975.<sup>96</sup> In addition to the JOCV program, the JICA began to address the challenges of human security in the contemporary world. Since 2003, Japan's Official Development Assistance (ODA) Charter has been reflecting the importance of the concept of human security in the era of globalization. The ODA Charter mentions:

In order to address direct threats to individuals such as conflicts, disasters, infectious diseases, it is important not only to consider the global, regional and national perspectives, but also to consider the perspectives of human security, which focuses on individuals. Accordingly, Japan will implement ODA to strengthen the capacity of local communities through human resource development. To ensure that human dignity is maintained at all stages, from the conflict stage to the reconstruction and development stage, Japan

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<sup>95</sup> Japan International Cooperation Agency, *Annual Report 2005*, Tokyo: JICA.

<sup>96</sup> *Ibid.*

will extend assistance for the protection and empowerment of individuals.<sup>97</sup>

Besides, Japan's new medium-term policy on ODA in February 2005 promoted human security as an overarching concept, integral to the implementation of development assistance. The JOCV volunteers have a strong presence in South Asia and they are contributing to building grassroots networks for social development. In Bangladesh, the JICA dispatched its first volunteers in August 1973.

Initially, the JOCV program activities were focused on rice culture and vegetable growing, but later they include community development, primary school education, computer technology and Japanese language. In 1981, the JICA sent female volunteers for the first time who promoted social participation by women in the rural areas of Bangladesh.<sup>98</sup> South Asia-Japan relationship is expanding and strengthening through the grassroots networks that have expanded since the early 1990s through the official and nonofficial channels particularly in social sectors. The Japanese government through JICA initiated assistance for grassroots networks which focuses on empowerment and capacity building of small organizations in South Asian countries. They have introduced a special fund for grassroots networks. However, the most significant contribution in this area comes from Japanese civil society organizations and individuals. A major example is the activity of *Shaplaneer* in Bangladesh and Nepal. The growing visibility of grassroots networks between Japan and South Asia is an emerging phenomenon in their bilateral and multilateral relationship.

## 6.2 Labor Migration

Labor migration is a major component of South Asia-Japan relations although it remains somewhat neglected at policy level.

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<sup>97</sup> The Government of Japan, *Japan's Official Development Assistance Charter*, Tokyo, the Ministry of Foreign Affairs, 2003, available online, <http://www.mofa.go.jp/policy/oda/reform/revision0308.pdf> accessed on 15 June 2007.

<sup>98</sup> JICA, 2005, *op.cit.*

Japan is a highly attractive destination for migrant workers from any corner of the world. It is estimated that foreign workers from the developing world earn much more in Japan than in other countries that have migrant labor. According to official and private estimates, foreign workers from the poor countries send home on an average of more than 900 billion yen or around 825.3 million US dollars annually which is larger than the amount they receive from Tokyo as foreign aid.<sup>99</sup> Asian countries share the largest number of migrants in Japan. On the top of the remittance list are countries such as China, the Philippines, Thailand and South Korea with their combined remittance amounting to US\$5.5 billion.<sup>100</sup>

Although it is difficult to have the accurate number of South Asian migrants in Japan, it can undoubtedly be said that Japan has a sizeable number of South Asians. In general, South Asia produces a large number of migrants in different countries particularly in the developed nations. According to a World Bank estimate, the South Asian region would receive an estimated US\$32 billion in remittances in 2005, a 67 percent increase from 2001. India is the largest recipient of remittances (US\$21.7 billion), Pakistan and Bangladesh receiving US\$3.9 billion and US\$3.4 billion respectively. The report further says that remittance inflow has helped Bangladesh cut its poverty by six percent; in Sri Lanka remittance receipts are larger than tea exports, and in Nepal, remittances account for nearly 12 percent of GDP.<sup>101</sup>

There is a prospect for expanding Japanese labor market for migrants coming from Asian countries mainly from Southeast and East Asia. The leading business lobby in Japan, the *Keidanren* has been pressing the Japanese government to conclude with its Asian neighbors bilateral trade agreements that recognize the country's need to open its doors to skilled foreign workers.<sup>102</sup> South Asian

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<sup>99</sup> Subendri Kakuchi, "Migrants: Foreigners' Remittances from Japan Top US\$825 Million", *Global Information Network*, September 2004.

<sup>100</sup> *Ibid.*

<sup>101</sup> *The Daily Star*, Dhaka, 22 November 2005

<sup>102</sup> Kakuchi, *op.cit.*

policy makers, scholars and citizens expect that Japan may face further crisis of labor because of the increasing number of aging population. This would provide more opportunities for South Asian labor migration to Japan. For example, Rehman Sobhan categorically identifies this opportunity in Japan for the future.<sup>103</sup> Former Bangladeshi Ambassador to Japan, Sirajul Islam also pointed out this possibility while talking to Bangladeshi community in Tokyo.<sup>104</sup> Moreover, *Diaspora* helps building networks that are used for multifarious purposes from business to culture.

### 6.3 Peace-building Role in Sri Lanka

The peace-building role of Japan in South Asia paves the way for a new chapter in their partnership. The Tamil conflict in Sri Lanka is regarded as the most intractable and destructive conflict in the region. The war involving the Sri Lankan government and the Liberation Tigers of Tamil Eelam (LTTE) started in 1983, and since then over 65,000 civilians, security force personnel and LTTE cadres have lost their lives. The damage to personal and public property in Sri Lanka during 1993-98 is estimated at 1.7 times of the GDP in 1998.<sup>105</sup> Efforts at a negotiated peace settlement have not been succeeded largely due to the uncompromising stance of the political elite representing the country's distinct ethnic communities to agree on a power sharing formula. The unitary form of state is another cause for creating a centralized power structure in which majority community enjoys political power. Perera traces the origin of the conflict to rival elite competition as well as the structure of government.

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<sup>103</sup> *The Daily Prothom Alo*, 17 August, 2006

<sup>104</sup> It is based on personal talk and a speech by the Ambassador of Bangladesh to Bangladeshi community in Tokyo on the occasion of celebrating International Mother Language Day organized by the Embassy of Bangladesh, Japan on 22 February 2005.

<sup>105</sup> Jehan Perera, "Sri Lanka: Confrontation to Accommodation", *South Asian Journal*, No. 3. January-April 2004.

In 2000, the government of Sri Lanka requested for international mediation with a view to bringing an end to this conflict. The former President Chandrika Kumaratunga invited the government of Norway to act as a third party intermediary and mediate negotiation between the Government and the LTTE. It may be mentioned that before this initiative, there was an attempt by India to settle the conflict. In this regard, India compelled President Jayewardene in 1987 to sign an accord wherein he invited an Indian Peace Keeping Force (IPKF) to help resolve the ethnic conflict. This, however, instead of resolving, further complicated the conflict and, ultimately, India had to withdraw the IPKF in 1990. In 2001, the LTTE leader Velupillai Prabhakaran indicated his willingness to come to a peaceful settlement.<sup>106</sup> In an attempt to end the conflict, the Sri Lankan Government and LTTE on February 23, 2002, signed the Norwegian-brokered ‘Memorandum of Understanding (MoU) on the Permanent Cessation of Hostilities’.

Since the early 1990s, the development cooperation by the rich countries has been extended to peace and conflict issues. The JICA through its report *JICA Thematic Guidelines on Peace-building Assistance* in 2003 clearly conceptualizes the role of Japan in peace-building and post-conflict areas.<sup>107</sup> Broadly, JICA now focuses on three areas in its peace building assistance worldwide – development assistance, diplomatic approaches and support to PKO. In June 1992, Japan hosted “Ministerial Conference on Cambodian Reconstruction” and chaired the “International Committee on the Reconstruction of Cambodia” for three years from 1993. In 1999, the “East Timor Donors’ Meeting” was held in Tokyo in which Japan took active role in drawing global attention to East Timor crisis.

Similarly, Japan steadily increased its commitments of personnel to UN-led peacekeeping operations in accordance with the 1992 International Peace Cooperation Law. Until March 2005, Japan contributed to 18 global peace cooperation operations in the forms of

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<sup>106</sup> *Ibid.*

<sup>107</sup> Japan International Cooperation Agency, *JICA Thematic Guidelines on Peacebuilding Assistance*, Tokyo: JICA, 2003.

UN PKO, international humanitarian relief operations, and international election monitoring operations.<sup>108</sup> In the course of Japan's growing involvement in global peace-building operations, Japan involved itself in the peace process of Sri Lanka. After signing the MoU, the Government and LTTE have held five rounds of peace talks (the first three rounds, September, October and December 2002 – in Thailand; the 4th round in February 2003, in Berlin; and the March 2003, 5th round in Tokyo).

Peace talks were combined with efforts to mobilize donor funds to rebuild the country, in particular, the North and East. The first donor meeting was held in Oslo in December 2002 followed by the second one in Washington in mid-April 2003. Both were preparatory to a more significant meeting to be held in Tokyo. The key global actors behind this peace process are countries, such as, Norway, USA, EU, Japan and India as well as multilateral agencies, such as, the World Bank, Asian Development Bank and the UNDP. The Japanese government appointed Yasushi Akashi, a former UN Under Secretary General, as the special envoy for the peace process.

The emergence of Japan as a leading player in the negotiations to end nearly twenty years of civil war and post-war reconstruction plans is very significant. Japan also hosted "The Tokyo Conference on Reconstruction and Development of Sri Lanka" in June 2003 that was attended by representatives from 51 countries and 22 international organizations.<sup>109</sup> Unlike typical peace-building operations as Japan got involved, the Sri Lanka case demonstrates Japan's political and security ambition. In this case, Japan focused on its diplomatic role as Akashi argued Japan must go beyond 'checkbox diplomacy'. Precisely, it was beyond the scope of traditional peacekeeping, humanitarian or election monitoring operations or even checkbox diplomacy. It is a new move by Japan that demonstrates its intention to play a bigger role in South Asia and the Indian Ocean region.

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<sup>108</sup> MOFA, Japan, <http://www.mofa.go.jp/policy/un/pko/pamph2005-2.pdf> accessed on 30 April 2006

<sup>109</sup> JICA, 2003, *op.cit.*

#### 6.4 Cultural Borrowing

Another component of South Asia-Japan relationship includes the concept of cultural borrowing. Actors internalize norms and standards of behavior by acting in social structures. International socialization is the process of inducting actors into norms and rules of a given community.<sup>110</sup> “With the promulgation of the Taiho Code in 701, Japan introduced a Chinese style government utilizing a bureaucratic system that relied heavily on imported Chinese institutions, norms and practices”.<sup>111</sup> Japan perfectly adapted to Western ideas while retaining the values of its own. Japan had not globalized itself through a typical Western modernization process. The underlying framework behind such change may be conceived as ‘cultural borrowing’ and ‘transnationalism’ which was successfully applied by Japan in its quest for modernity since 1867.<sup>112</sup> Japan's big effect on the world through the model of ‘cultural borrowing’ has been even more important. It has shown clearly that you do not have to embrace “western” culture in order to modernize your economy and prosper.

It may be argued that close ties between South Asia and Japan on socio-cultural front can create the opportunities for South Asian countries for sharing the Japanese experiences of cultural borrowing. Tagore hinted at such possibilities long ago. Although he criticized Japanese militarism, he highlighted the importance of Japan as a model to achieve economic and social development to the colonized world subsequently emerged as the Third World/Developing

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<sup>110</sup> Michael Zurn, and T. Checkel Jeffrey, “Getting Socialized to Build Bridges: Constructivism and Rationalism, Europe and the Nation-State”, *International Organization*, 59, Fall 2005, pp. 1045-79.

<sup>111</sup> David C Kang, “Hierarchy in Asian International Relations: 1300-1900”, *Asian Security*, No. 1. January 2005, p. 58.

<sup>112</sup> Kazuhiko Okuda, “Transnationalism and the Meiji State: On the Question of Cultural Borrowing”. *Bulletin of the Royal Institute for Inter-Faith Studies* 3, No. 1, 2001; M.A. Bamyeh, “Transnationalism” *Current Sociology* 41, no. 3, Winter, 1993.

World.<sup>113</sup> As Huq observes, the image of Japan in the developing world is that of a nation which could achieve tremendous success in a relatively short period of time.<sup>114</sup> Moreover, Japan remains the only example of a nation that could graduate from the position of recipient of foreign aid to the status of a principal donor within a relatively short period of time. This makes the country an example that many in the developing world would definitely like to follow.<sup>115</sup> He further argues that if today's developing countries can learn something from that particular experience of Japan, only then can there be any possibility of applying the Japanese model in reality.<sup>116</sup> An Indian Minister who visited Japan in 2005 pointed out that India and Japan have many things to learn from each other.<sup>117</sup> Thus it reflects a true need for social learning from Japan that can be achieved through a regional framework.

## 7. Conclusion

The paper demonstrates that there is an evolving regional dimension to understand South Asia-Japan relations in the contemporary world. The typical donor-recipient pattern of relationship cannot explain the significance of relationship between South Asia and Japan. Japan's growing interest in regionalism provides necessary impetus to explore the regional perspective and its agenda, determinants and instruments. Japan's relations with SAARC as an observer nation and growing connections with BIMSTEC and IOR-ARC empirically show how they are connected through regional considerations. The major instruments behind their

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<sup>113</sup> Rabindranath Tagore emphasised this point in his lectures delivered while visiting Japan. He also wrote a book entitled *Japan Jatri* (A visit to Japan) published in 1919 where he referred to such idea.

<sup>114</sup> Huq, 2003, *op.cit.*

<sup>115</sup> *Ibid.*

<sup>116</sup> *Ibid.*

<sup>117</sup> Renuka Chowdhury, *The Japan Times*, 15 October 2005.

new partnership include ODA, trade and investment on the one hand, grassroots networks, labor migration, peace building role and cultural borrowing, on the other.

However, in consolidating South Asia-Japan regional partnership two major constraints are mainly visible. First, the volatile and chaotic regional political dynamics hinders taking long-term projects in this region by Japan. Bilateral disputes between India and Pakistan on the Kashmir issue and several other inter-state conflicts pose constant threat to regional peace and security. Besides, the rise of religious extremism, insurgent movements and ethnic problems adversely influence regional political environment. So, it is important to have favorable regional environment to engage external powers like Japan. Otherwise it will be the same old story. Second, business environment in South Asia also suffers from several hindrances identified by the Japanese investors in South Asia. Japanese investors have identified some specific problems existing for business in different countries of South Asia. For example, according to Japanese investors, in India they face problems such as restriction on entry into retail industry by foreign enterprises, delayed investment approval procedure, defective labor laws and regulations, and frequent labor disputes, underdeveloped infrastructure and delayed procedure for tax deduction at source. In Bangladesh, the constraints include lack of policy continuity, labor disputes, lack of security, corruption, existence of pre-shipment inspection, delayed customs procedure, delayed issuance of employment visas, underdeveloped infrastructure and delayed L/C settlement. In Sri Lanka, the hindrances include uncertainty regarding peace and security, lack of policy continuity, lengthy dispute settlements, inefficient customs, and labor disputes. In case of Japan, the country appears to have stereotyped donor mindset singularly focused on ODA. Japan is less interested to expand its production networks from Southeast Asia or East Asia to South Asia. Japan has been oblivious to strategic significance of South Asia for many decades. In the conclusion, it may be argued that the positive changes in regional political and business environment in South Asia and changes in the mindset of Japanese policy-makers will strengthen mutual cooperation resulting in a robust and vibrant regional perspective.

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**Appendix-1:  
South Asia-Japan Trade Information and Japanese ODA to South Asia\***

**Table-1: Japan as a Bilateral Donor to Bangladesh (net disbursements in US\$ million).**

Year	1		2		3		4		5		Total
1998	Japan	189.1	U.K.	99.0	Germany	65.1	Netherlands	57.9	Canada	53.5	623.9
1999	Japan	123.7	U.K.	114.9	USA	113.6	Germany	46.6	Denmark	42.0	607.3
2000	Japan	201.6	U.K.	103.4	USA	62.5	Canada	38.5	Germany	36.7	616.5
2002	Japan	262	U.K.	188	USA	95	Netherlands	51	Denmark	41	913.0

Source: MOFA, Japan, *Japan's ODA White Paper 2002*.

**Table-2: Japan as a Bilateral Donor to India (Net Disbursements in US\$ million)**

Year	1		2		3		4		5		Total
1998	Japan	505.0	U.K.	186.6	Germany	106.5	Denmark	37.7	Netherlands	27.0	915.1
1999	Japan	634.0	U.K.	131.7	Germany	29.6	Denmark	25.1	Switzerland	19.4	838.3
2000	Japan	368.2	U.K.	204.2	Denmark	20.9	Switzerland	18.3	Germany	15.6	650.3
2002	Japan	768.0	U.K.	346.0	Germany	159	USA	149	Netherlands	105.0	1463

Source: MOFA, Japan, *Japan's ODA White Paper 2002*.

**Table-3: Japan as a Bilateral Donor to Pakistan (Net Disbursements in US\$ million)**

Year	1		2		3		4		5		Total
1998	Japan	491.5	U.K.	46.4	Netherlands	16.8	Canada	16.1	Switzerland	10.1	534.8
1999	Japan	169.7	Germany	83.4	U.S.A.	75.0	U.K.	39.5	Netherlands	23.2	435.2
2000	Japan	280.4	U.S.A.	88.5	U.K.	23.7	France	19.6	Netherlands	19.1	475.1
2002	USA	656	Japan	284	France	250	U.K.	106	Germany	58	2138

Source: MOFA, Japan, *Japan's ODA White Paper 2002*.

**Table-4: Japan as a Bilateral Donor to Sri Lanka (Net Disbursements in US\$ million)**

Year	1		2		3		4		5		Total
1998	Japan	197.9	Germany	19.0	U.K.	13.6	Netherlands	13.2	Norway	13.2	282.3
1999	Japan	136.0	Sweden	14.3	Norway	14.0	Germany	10.8	U.K.	9.3	207.7
2000	Japan	163.7	Germany	21.2	Sweden	16.7	Norway	14.6	U.K.	9.9	240.2
2002	Japan	249	Germany	25	Norway	25	Netherlands	24	Korea	17	344

Source: MOFA, Japan, *Japan's ODA White Paper 2002*.

Figures for individual donors for each year in Table 1-5 correspond to a gross ODA and the total figure is net ODA.

**Table-5: Japan as a Bilateral Donor to Nepal (Net Disbursements in US\$ million)**

Year	1	2	3	4	5	Total	
1998	Japan	56.9	U.K. 28.0	Germany 24.5	Denmark 22.9	U.S.A. 16.9	212.7
1999	Japan	65.6	U.K. 26.4	Denmark 23.8	Germany 22.1	U.S.A. 16.7	204.8
2000	Japan	99.9	Denmark 25.0	U.K. 23.0	Germany? 21.8	U.S.A. 16.0	231.2
2002	Japan	87.0	Germany 49.0	U.K. 45.0	USA 35.0	Denmark 33.0	365.0

Source: MOFA, Japan, *Japan's ODA White Paper 2002*.

**Table-6: Major Export Markets of South Asian Countries (% of total)**

	DMCs		PRC		Japan		US		EU		Others	
	1995	2004	1995	2004	1995	2004	1995	2004	1995	2004	1995	2004
South Asia	18.4	19.6	1.0	4.4	6.5	2.2	19.5	19.2	29.9	25.7	24.8	28.9
Afghanistan	55.9	50.1	9.2	0.4	0.6	0.5	3.2	12.4	20.6	20.3	10.5	16.3
Bangladesh	8.2	4.4	0.6	0.4	3.3	0.8	31.9	22.4	44.8	51.2	11.2	20.8
India	20.2	22.0	0.9	5.5	7.0	2.5	17.4	17.0	27.5	21.9	27.0	31.1
Nepal	9.8	49.3	0.1	1.2	0.5	1.1	30.5	22.7	53.3	18.2	5.8	7.5
Pakistan	19.6	15.8	1.5	2.3	6.8	1.2	15.1	23.5	31.0	30.3	26.1	27.0
Sri Lanka	8.9	12.7	0.1	0.4	5.3	2.7	35.6	32.4	32.4	32.4	17.7	19.5

Source: ADB, *Asian Development Outlook 2006*

**Table-7: Direction of Merchandise exports of South Asian Countries (% of total)**

	Asia		Europe		North & Central America		Middle East		South America		Africa		Rest of the World	
	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004
Bangladesh	14.8	7.0	41.8	51.0	32.3	26.5	4.9	1.3	0.4	0.1	3.3	0.8	2.5	13.3
India	21.0	32.4	47.2	24.8	16.3	20.7	7.1	13.5	0.1	1.1	1.8	5.2	6.4	2.4
Nepal	14.7	53.7	60.0	18.8	24.1	24.1	0.1	0.1	0.0	0.0	0.0	0.1	1.0	3.3
Pakistan	30.6	22.4	41.0	29.9	14.3	23.8	8.7	17.8	0.1	0.6	4.0	4.4	1.4	1.2
Sri Lanka	14.8	14.3	30.9	36.9	28.8	33.4	17.7	8.1	0.6	0.5	1.2	0.8	5.9	6.0

Source: Asian Development Bank, *Key Indicators 2005*, Manila: Asian Development Bank, 2005.

**Table-8: Direction of merchandise imports of South Asian countries (% of total)**

	Asia		Europe		North & Central America		Middle East		South America		Africa		Rest of the World	
	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004
Bangladesh	47.7	59.6	22.0	10.6	8.4	3.1	5.1	8.2	1.4	1.5	0.2	0.8	15.1	16
India	17.4	27.8	41.3	28.6	12.9	7.9	18.3	5.9	1.6	1.4	2.8	2.0	5.7	26.4
Nepal	69.4	67.7	20.1	6.3	2.9	2.5	0.0	18.5	0.4	0.2	0.2	0.3	7.0	4.5
Pakistan	31.6	35.1	29.3	22.1	14.2	11.8	19.1	26.6	0.8	0.4	2.5	1.8	2.5	2.2
Sri Lanka	47.5	55.3	18.0	23.0	9.0	2.8	11.5	9.0	0.8	0.3	4.4	0.5	8.8	9.1

Source: Asian Development Bank, *Key Indicators 2005*, Manila: Asian Development Bank, 2005.

**Table-9: Major Trading Partners of South Asia and Japan, 2003**

Countries	Major Destinations of Exports*					Major Destinations for Imports*				
	USA	EU (15)	China	Korea	Taiwan	China	USA	EU (15)	Korea	Indonesia
Japan	USA	EU (15)	China	Korea	Taiwan	China	USA	EU (15)	Korea	Indonesia
Bangladesh	EU (15)	USA	Canada	Hong Kong	Japan	India	Singapore	China	EU (15)	Hong Kong
India	EU (15)	USA	UAE	Hong Kong	China	EU (15)	USA	China	Switzerland	Korea
Nepal	India	USA	EU (15)	China	Bangladesh	India	China	Singapore	EU (15)	Malaysia
Pakistan	EU (15)	USA	UAE	Hong Kong	Afghanistan	EU (15)	KSA	UAE	USA	China
Sri Lanka	USA	EU (15)	India	Japan	Russia	India	EU (15)	Hong Kong	Singapore	Japan

Source: World Trade Organization (WTO). Available online. [http://stat.wto.org/countryprofiles/NP\\_e.htm](http://stat.wto.org/countryprofiles/NP_e.htm) accessed on September 18, 2005.

\* Destination countries are put in ranking order.

\*\* USA (United States of America), EU (European Union), UAE (United Arab Emirates), KSA (Kingdom of Saudi Arabia).

**Table-10: Exports from Japan to Selected Countries of South, Southeast and East Asia, 2004 (in JPY100million)**

	1990	1992	1994	1996	1998	2000	2001	2002	2003	2004
East and Southeast Asia										
China	8840	15100	19100	23800	26200	32700	37600	49800	66400	79900
Korea	25200	22500	24900	31900	200	23100	33100	35700	40200	47900
Indonesia	7240	7060	7830	9860	560	8180	7780	780	830	9820
Malaysia	7930	10300	12600	16700	12200	1500	13400	13800	1300	13600
Philippines	3630	4450	6040	9150	9480	11100	9950	10600	10400	10400
Thailand	13200	13100	1500	19900	12200	14700	14400	16500	18500	21900
South Asia										
Bangladesh	550.3	303.6	342.3	376.5	421.1	509.1	542.4	534.4	493.5	486.2
India	2470	1880	2090	2650	3140	2680	2340	2340	2760	3290
Pakistan	1450	1640	873.4	1260	855.7	652.3	608.6	895.9	1040	1340
Sri Lanka	451.3	454.2	465.2	436.1	629.2	558.2	325.5	355.3	433.6	366.6
Nepal	83.4	75.1	67.6	71.2	31.9	33.4	26.0	21.0	15.1	24.4

Source: Trade Statistics of Japan, Monthly and Yearly Data, Ministry of Finance. Available online.

**Table-11: Imports of Japan from Selected Countries of South, Southeast and East Asia, 2004 (in JPY100million)**

	1990	1992	1994	1996	1998	2000	2001	2002	2003	2004
East and Southeast Asia										
China	17300	21400	28100	4400	48400	59400	70300	77300	87300	102000
Korea	16900	14700	13800	17400	15800	2200	20900	19400	20700	2380
Indonesia	18200	15500	13200	16500	14200	17700	18100	17700	19100	2020
Malaysia	780	8330	8420	12800	11300	15600	15600	1400	14600	1530
Philippines	3130	2960	2710	4920	5790	7760	7790	8180	8150	8920
Thailand	5990	7530	8380	11100	10700	11400	12600	13100	13800	1530
South Asia										
Bangladesh	103.3	78.4	92.6	156.2	149.0	126.3	140.1	140.5	152.3	153.0
India	3010	2590	2730	3090	2850	2840	2690	2620	2520	2830
Pakistan	778.8	671.6	561.7	625.3	405.6	270.6	268.2	189.7	155.8	184.3
Sri Lanka	194.7	191.5	193.2	297.6	297.3	242.4	248.3	209.1	225.4	212.8
Nepal	3.81	2.80	3.30	2.16	4.90	30.55	13.69	7.85	8.28	8.18

Source: Trade Statistics of Japan, Monthly and Yearly Data, Ministry of Finance, Japan. Available online.

**Table-12: Outward Direct Investment from Japan in Selected Countries of South, Southeast and East Asia, 2004 (in JPY100million)**

Countries	1990	1992	1994	1996	1998	2000	2001	2002	2003	2004
East and Southeast Asian Countries										
China	511	1381	2683	2828	1377	1114	1819	2152	3553	4909
Korea	419	291	420	468	389	902	704	763	321	908
Indonesia	1615	2142	1808	2720	1428	464	785	644	732	334
Malaysia	1067	919	772	664	668	256	321	98	523	135
Philippines	383	210	683	630	488	514	989	500	222	341
Thailand	1696	849	749	1581	1798	1030	1106	614	711	1273
South Asian Countries										
Bangladesh	60	79	2	12	4	9	-	-	-	-
India	44	160	101	247	332	185	181	378	99	104
Pakistan	13	23	83	34	11	-	-	9	-	-
Sri Lanka	7	24	10	30	46	12	16	29	-	-
Nepal	16	1	6	-	-	-	6	-	-	-

Source: Investment Statistics of Japan, Ministry of Finance. Available online.  
<http://www.mof.go.jp/english/e1c008.htm> accessed on 18 June 2005.

*M. Jashim Uddin*  
*Abu Salah Md. Yousuf*

## **INDO-US STRATEGIC PARTNERSHIP: IMPLICATIONS FOR SOUTH ASIA**

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### **Abstract**

Over the last couple of years, the relations between the US and India have witnessed a number of significant developments. Perhaps, the most remarkable among these are the Next Steps in Strategic Partnership (NSSP) of 2004 and the civilian nuclear agreement of 2006. The end of the Cold War, the post 9/11 developments, the rise of Asian powers, and the convergence of mutual interests have brought a great opportunity for both the countries to strengthen their bilateral relations. The new relationship will help accelerate India's rise as a major power in the regional and global arena. Thus, the new Indo-US 'strategic partnership' introduces a new dimension in South Asia. It is in this backdrop, the main thrust of the paper will be to examine the major areas of Indo-US cooperation. It will also discuss the regional and extra-regional implications of Indo-US strategic partnership for the South Asian countries.

### **1. Introduction**

Indo-US relations are undergoing a remarkable transformation. A sequence of developments of global significance, namely, the demise of the Soviet Union and the end of the Cold War, the emergence of a unipolar world, the process of globalisation, the ongoing war on terror and concomitant response of the US and India to these, and related developments have effectively eroded the old

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**M. Jashim Uddin**, Ph.D. and **Abu Salah Md. Yousuf** are Research Fellow and Research Officer respectively at the Bangladesh Institute of International and Strategic Studies (BISS). Their e-mails are [jashim@biiss.org](mailto:jashim@biiss.org) and [yousuf@biiss.org](mailto:yousuf@biiss.org) respectively.

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stereotypes that characterised Indo-US relations. With the end of the Cold War, the Non-Aligned Movement (NAM) has lost much of its relevance and dynamism. Russia, the successor state to the Soviet Union is no longer capable or willing to respond to the politico-economic or security requirements of India. All these have increased the significance of the US in pursuit of India's regional and global ambitions. The same factors coupled with the potential rise of China and the emerging partnership between Russia and China significantly increased the importance of India in the US policy towards South Asia and beyond. While Pakistan still remains an important ally of the US in the ongoing war on terror, India's importance significantly overweigh that of Pakistan.

In the light of the above, Indo-US relations are taking the shape of a strategic partnership embracing almost all aspects of inter-state relations. Nonetheless, the nature and magnitude of these relations are far from being clear. These relations have also raised a number of questions of regional as well as global significance and are being widely discussed by the academia, media and concerned professional circles. These questions pertain to Indo-US relations as well as their impact on a host of actors in regional politics, like, Pakistan and other South Asian countries, China, Russia and others, and involve a number of issues of significant politico-strategic as well as economic importance.

It is in this backdrop that the paper intends to deal with Indo-US relations and their implications for the region and beyond. The paper is divided into five sections. While this Introduction constitutes Section One of the paper, Section Two is a brief historical overview of Indo-US relations. Section Three sheds some lights on the reciprocal interests of India and the US in the changing world scenario. Section Four analyses the areas of significant importance in Indo-US relations. Section Five evaluates implications of Indo-US strategic partnership for the region and beyond. Finally, an attempt is made to project an outlook for the future.

## **2. Indo-US Relations: An Overview**

The history of Indo-US relations is more than half a century old. In 1950s and 1960s, the US provided India with technical assistance for 'green revolution' and fuel for its first nuclear plant at Tarapur.<sup>118</sup> Also the anti-China sentiments partly influenced India and the US towards scientific and technological cooperation. During the Sino-Indian War in 1962, the US offered military assistance to India and the US Central Intelligence Agency (CIA) helped India to establish a professional intelligence service.<sup>119</sup> Technological assistances of the US towards India, particularly in the field of agriculture and nuclear issues, were means of influencing New Delhi's hidden nuclear-weapon ambitions.

However, India's desire for self-reliance motivated it to join NAM with Indonesia, Egypt, Yugoslavia and other developing countries. At the same time, the nation was dependent on the former Soviet Union in terms of military equipments. Moreover, a series of developments frustrated the Indo-US relations. For example, India's refusal to sign the Nuclear Non-Proliferation Treaty (NPT) in 1968, Nixon administration's support to Pakistan during the Indo-Pak war of 1971 and India's nuclear test in 1974.<sup>120</sup> Nevertheless, the cooperation in the area of technology and agriculture continued up to 1970s.<sup>121</sup> During 1980s, the Soviet intervention in Afghanistan, and the Carter and Regan administration's offer of military assistance to Pakistan adversely affected Indo-US political relations. But, at the same time, the US became India's largest trading partner, particularly in high-technology categories—electronics, computers,

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<sup>118</sup> Richard P. Cronin, "South Asia: U.S. Interests and Policy Issues", *CRS Issue Brief*, 12 February 1993.

<sup>119</sup> Waheguru Pal Singh Sidhu, "Enhancing Indo-US Strategic Cooperation", *Adelphi Paper 313*, International Institute for Strategic Studies, UK, 1997, p.37

<sup>120</sup> *Ibid*, p.38.

<sup>121</sup> The cooperation between the two in agriculture and technology ended in 1980s, but cooperation in space technology continued.

and telecommunication equipments.<sup>122</sup> The dominant role of the US in supplying high technology was made possible by the Reagan-Gandhi Science and Technology Initiative (STI) in 1982—which dealt with civil equipment—and a 1984 Memorandum of Understanding (MOU) on Sensitive Technologies, Commodities, and Information, that dealt with military equipment. In 1981, the North-South Economic Summit in Cancun (Mexico) paved the way for deepening Indo-US interactions, which were continued till the era of Rajiv Gandhi. In this respect, the end of the Cold War era inaugurated new changes in bilateral issues of India and the US. The evolution of the global strategic framework and the influence of financial issues generated a new understanding between two countries for strengthening their bilateral relations. Apart from these, the emerging China and the issues of international terrorism have created convergence of interests between India and the US for forging a strategic partnership including a nuclear deal.

### **3. Indo-US Reciprocal Interests**

The ongoing process of strengthening relations between India and the US is motivated by a host of mutual interests of political, economic, and military-strategic nature.<sup>123</sup> In this respect, the US has larger strategic interests in India in different spheres. Firstly, the issue of rising China has become an issue of serious concern to the US foreign policy.<sup>124</sup> The US considers China as a potential threat to its lone super power status in the contemporary world. In this respect, the US perceives that a stronger India will help to contain

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<sup>122</sup> "India-US Economic Relations", Embassy of India in USA, available at: <http://www.indianembassy.org/Economy/economy.htm#U.S.%20investments%20in%20India>, accessed on 18 February 2007.

<sup>123</sup> R. Nicholas Burns, "America's Strategic Opportunity with India: The New US-India Partnership", *Foreign Affairs*, November/December 2007.

<sup>124</sup> Ahmed Ijaz Malik, "US-India convergence of interests: Challenges for Pakistan", *National Development and Security*, Vol.X, No.2, Serial No.38, Winter 2001/02, p.66.

China.<sup>125</sup> Secondly, both countries are facing threats from international terrorism. The US expects that India will be a strong supporter of the US in the global war against terrorism, which will also help the US to work closely with India on the issues of terrorism in South Asian region as well as in the international arena.<sup>126</sup> Thirdly, India and the US have common political, strategic and energy interests in South and Central Asia. Hence, the US believes that a partnership with India will make it easier for the US to exploit her interests in the region. Fourthly, India has a larger market compared to other countries of the region and the US does not want to loose such a huge market. Fifthly, energy is a driving force towards forging any relations in the contemporary world. The US feels that India will be one of the reliable partners to ensure energy security for the days to come.<sup>127</sup> Sixthly, it is viewed that the relationship between India and Israel has influenced the development of the Indo-US strategic partnership.<sup>128</sup>

On the other hand, India considers that a strategic partnership with the US will fulfil India's multidimensional strategic vision in the regional level as well as in the international arena. Firstly, India considers that it does not enjoy a status in the international arena befitting to a nuclear power. Hence, India hopes that its strategic partnership and nuclear deal with the US would give it the desired status as a nuclear power. Secondly, India's ever growing demand for energy influenced it towards forging the strategic partnership with the US. India is currently the world's sixth largest energy

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<sup>125</sup> Dr. Rashid Ahmad Khan, "Indo-US nuclear deal: Implications for the region", *IPRI Journal*, Winter 2007, Vol.VI, No.1.

<sup>126</sup> Richard A. Boucher, "The United States and South Asia: An expanding agenda", US Department of State, 17 May 2006, available at: <http://www.state.gov/p/sca/rls/rm/2006/66374.htm>, accessed on 8 January 2007

<sup>127</sup> Indo-US Joint Statement, March 2006, The White House, available at: <http://www.whitehouse.gov/news/releases/2006/03/20060302-5.html>, accessed on 10 January 2007.

<sup>128</sup> Harsh V Pant, "India-Israel Partnership: Convergence and Constraints", *The Middle East Review of International Affairs (MERIA)*, Vol.8, No.4, December 2004.

consumer, with more than half of its electricity production based upon coal.<sup>129</sup> In 2003, India produced 33 million tons of crude oil; it imported 90 million tons or 73 percent of its total requirement of 123 million tons.<sup>130</sup> Some analysts believe that by 2020, India may become the fourth largest consumer of oil, following only the United States, China and Japan.<sup>131</sup> In this respect, India expects that its strategic partnership with the US will help to satisfy its rapidly increasing energy needs, since the larger part of world's energy resources are either directly or indirectly remain under the US control. Thirdly, the partnership with the lone super power will increase India's influence in the region as well as in the international arena.<sup>132</sup> Fourthly, a close partnership with the US would increase India's manoeuvrability vis-à-vis the Kashmir issue. Fifthly, though India is gradually improving its relations with China, the two countries have a number of outstanding issues. India expects that her partnership with the US will prevent China from following a confrontational course. Sixthly, India is trying to upgrade its international stature through acquiring a permanent seat in the United Nations Security Council. For this, the support of the US is indispensable. Seventhly, India's technological and economic drive at home and its persistent efforts at penetrating the markets of the developed countries are also pushing India to develop mutually

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<sup>129</sup> Peter M. Lamb, "The Indian Electricity Market: Country Study and Investment Context," Program on Energy and Sustaining Development, Stanford University, Working Paper, No.48, 16 April 2005, (updated 2006) available at [http://eis-db.stanford.edu/pubs/20975/India\\_Country\\_Study\\_UPDATE.pdf](http://eis-db.stanford.edu/pubs/20975/India_Country_Study_UPDATE.pdf), accessed on 18 May 2006.

<sup>130</sup> "IEA Energy Statistics, Oil in India in 2003", cited in C. Christine Fair, Indo-Iranian Ties: Thicker than Oil, *The Middle East Review of International Affairs (MERIA)*, Vol.2, No.1, March 2007.

<sup>131</sup> Saikat Neogi, "Oil Diplomacy Beyond Tehran," *The Hindustan Times*, 5 February 2006.

<sup>132</sup> George Perkovich, "Is India a Major Power?", *The Washington Quarterly*, Vol.27, No.1 Winter 2003-04, pp.129-44.

beneficial scientific and technological as well as economic relations with the US.

#### **4. Indo-US Co-operation: Areas of Significant Importance**

The US and India agreed to expand their bilateral cooperation in three specific areas in January 2004: civilian nuclear activities, civilian space programmes and high-technology trade.<sup>133</sup> In addition, the two countries agreed to expand dialogue on missile defence. They formulated the progress of cooperation through a series of reciprocal steps, called 'Next Steps in Strategic Partnership (NSSP)'. After declaring the NSSP, President Bush said:

“The proposed cooperation will progress through a series of reciprocal steps that will build on each other. It will include expanded engagement on nuclear regulatory and safety issues and missile defence, ways to enhance cooperation in peaceful uses of space technology, and steps to create the appropriate environment for successful high technology commerce. In order to combat the proliferation of weapons of mass destruction, relevant laws, regulations, and procedures will be strengthened, and measures to increase bilateral and international cooperation in this area will be employed.”<sup>134</sup>

Since the signing of the NSSP, both countries have been increasing their relationship in this respect. The first step in NSSP was completed in September 2004. Since then, the US approval rates on giving licences to Indian entities for dual-use technology have been significantly increased. As a result, in 2004, out of 1000 Indian entities' applications, 912 got licences and the trade in dual-use technology jumped from US\$ 57 million in 2003 to US \$90 million

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<sup>133</sup> United States-India Joint Statement on Next Steps in Strategic Partnership, The US State Department, 17 September 2004, available at: <http://www.state.gov/r/pa/prs/ps/2004/36290.htm>, accessed on 6 January 2007.

<sup>134</sup> [President Bush's Statement on Strategic Partnership with India](#), *White House Press Release*, 12 January 2004.

in 2004.<sup>135</sup> Between October 2004 to January 2005, 176 applications for high-end dual-purpose technology were approved out of 185.<sup>136</sup> In addition, the NSSP gave a new framework for Indo-US cooperation in different sectors.

### ***Nuclear and Security Deal***

The issue of nuclear deal is the core of Indo-US strategic partnership. It introduced a deep-seated change in Indo-US relationship. During his historic visit to India in March 2006, President Bush said to the reporters, "I have been received in many capitals around the world but I have never seen a reception as well-organized or as grand." During the visit, on 2 March 2006, India and the US signed a nuclear deal. In the agreement, the US expressed willingness to provide India with nuclear technology and fuel. President Bush has made it clear that he intended to sell the deal as part of his government's energy security plan. He also highlighted the importance of India in the US strategic calculus. It needs to be noted here that the nuclear deal with India will fulfil the US demand for fossil fuels and it will ensure lower gasoline prices for the US consumers. However, there has been a lot of confusion regarding whether the US Congress would approve the Indo-US nuclear deal, since India is not a signatory to the NPT. Meanwhile, the US Congress approved the Indo-US nuclear deal on 16 November 2006<sup>137</sup> and, thus, all confusions about the deal have been removed.<sup>138</sup> The Section 108 of the bill regarding the nuclear deal directs the President to keep the appropriate congressional committees fully informed of any significant nuclear activities of

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<sup>135</sup> Dr, Mavara Inayat, "US-India Strategic Partnership: Implications for Asia and Beyond", *Regional Studies*, Vol-XXXIV, No.2, Spring 2006, p.10.

<sup>136</sup> *Ibid.*

<sup>137</sup> House of Representative Bill no. 5682 as amended.

<sup>138</sup> The house of representative passed the bill with an overwhelming majority of 359-68, the Senate Foreign Relations Committee passed the bill by a 16-2 margin, and the Senate had passed the bill with 85 votes in favour and 12 against it.

India.<sup>139</sup> The decision of the US Congress has created a new direction for the Indo-US nuclear deal. After signing the legislation on 18 December 2006, President Bush stated, "I appreciate the Senate's leadership on this important legislation and look forward to signing this bill into law soon."<sup>140</sup> The US Secretary of State Condoleezza Rice projected the deal as "the first fundamental pillar" of Indo-US relations.<sup>141</sup>

On 27 July 2007, both the countries completed "123 Agreement" designed to remove longstanding US and international nuclear trade restrictions on India. The agreement needs to be approved by the parliament of both the countries before it could be implemented. Meanwhile, a debate on the agreement is going on in both the countries. Some US scholars think that the relaxation of the non-proliferation laws for India as an exception outside the NPT framework would weaken the fundamental goal of US non-proliferation policy, namely, the prevention of the spread of nuclear weapons beyond the five recognised nuclear weapon states under the NPT.<sup>142</sup> But regarding the matter, the US president said, "We would not assist India's nuclear weapons program, but we would help India construct new power plants and would provide it with the latest nuclear fuel and technology to run them."<sup>143</sup>

On the other hand, the leftist political parties in India felt a kind of ideological compulsion to oppose the steps taken by India to improve its relations with the US.<sup>144</sup> Thus, the deal has been

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<sup>139</sup> Henry J. Hyde United States-India Peaceful Atomic Energy Cooperation Act of 2006.

<sup>140</sup> *Dawn*, 18 November 2006.

<sup>141</sup> Statement of Condoleezza Rice, US Chamber of Commerce, 27 June 2007.

<sup>142</sup> Rajesh Kumar Mishra, "Indo-US Nuclear Deal and Non-Proliferation", *Strategic Analysis*, Vol.29, No.4, Oct-Dec 2005.

<sup>143</sup> R.Nicholas Burns, *op. cit.*

<sup>144</sup> PR Chari, "Indo-US Nuclear Deal: Unending Drama in Many Acts", *IPCS Issue Brief*, Institute of Peace and Conflict Studies (IPCS), January 2007.

criticised by the leftist political parties.<sup>145</sup> The opposition *Bharatia Janata Party (BJP)* is also opposing the Indo-US nuclear deal, though BJP has initiated the improvement in Indo-US relations when it was in power. BJP thinks that the International Atomic Energy Agency (IAEA) safeguard will weaken the nuclear potential of India. The former Minister for External Affairs of India, Yaswant Sinha, claimed that the purpose of the deal was to impose conditionalities on India that were worse than those in NPT and Comprehensive Test Ban Treaty (CTBT). The sole objective of the deal was to cap India's nuclear weapon program.<sup>146</sup> The criticism on the part of the opposition parties, leftist as well as rightist, is far from being purposeful and also lacks conviction. Hence, such criticism is unlikely to hamper the Indo-US cooperation on nuclear issues.

In addition to the nuclear deal, both the countries are committed to a comprehensive cooperative effort to ensure common strategic and security interests. Both are expanding the scope of joint cooperation on counterterrorism, including work on bioterrorism and cyber security. They agreed to sign an agreement to facilitate mutual logistic support during combined training, exercises and disaster relief operations. The US reaffirmed its goal to help for meeting India's defence needs and to provide the important technologies and capabilities that India seeks. Both the countries support the efforts to limit the spread of enrichment and reprocessing technologies and also support the conclusion of a Fissile Material Cut-off Treaty.

### ***Cooperation in Socio-economic Sectors***

During Indian Prime Minister Monmohan Singh's visit to the US, on 18 July 2005, both the countries concluded a number of agreements to foster closer cooperation on a wide variety of areas. They have decided to form US-India Chief Executive Officers

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<sup>145</sup> M. J. Akbar, "Indo-US Nuclear Deal", *Arab News*, 19 August 2007, available at: <http://www.arabnews.com/?page=7&section=0&article=100096&d=19&m=8&y=2007>, accessed on 25 February 2008.

<sup>146</sup> Dr. Rashid Ahmad Khan, "Indo-US Nuclear Deal: Implications for the Region", *IPRI Journal*, Winter 2007, Vol.VII, No.1.

(CEOs) Forum,<sup>147</sup> comprising selected CEOs from both countries, with a mandate to develop a roadmap for increased partnership and cooperation between the two countries at business level.<sup>148</sup> This CEO forum has defined six priority areas for economic cooperation:<sup>149</sup>

- Promotion of trade and industry
- Creation of infrastructure development fund
- Promotion of technology in agriculture, biotechnology and nanotechnology
- Partnership in skills development
- Set up an Indo-US centre for industrial issues
- Establish a dispute resolution mechanism

This CEO forum decided to cooperate in physical infrastructural development, energy security, human resource development, technology exchange, trade and industry promotion, and intellectual property protections.<sup>150</sup> They also decided to cooperate in job creation and economic growth; support economic reform and liberalization; develop a bilateral business climate congenial to trade and investment; and improve market access for goods and services. They agreed that trade is essential to promote global economic growth, development, freedom and prosperity. They launched the knowledge initiative on agriculture to link universities, technical

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<sup>147</sup> Indo-US Joint Statement, 18 July 2006.

<sup>148</sup> "US-India Economic Partnership", US India CEO Forum, March 2006, available at: <http://planningcommission.nic.in/reports/genrep/USIndia.pdf>, accessed on: 7 January 2007

<sup>149</sup> SPAN, Vol.XLVII, No.2, March/April 2006, available at: <http://usembassy.state.gov/posts/in1/www/hspmarapr064.html>, accessed on: 7 January 2007

<sup>150</sup> "US-India Economic Partnership", US India CEO Forum, *op. cit.*

institutions, and businesses to support education, research and capacity-building projects.<sup>151</sup>

Both the countries are working together to support the creation of innovative, dynamic, knowledge-based economies. The US is funding Intellectual Property Rights (IPR) training programs to strengthen enforcement and patent examination. As a vibrant IPR regime, it is very important to promote a creative and technologically advanced economy. India and the US also established a Bi-National Science and Technology Commission to generate collaborative partnership in science and technology.<sup>152</sup> They have agreed to continue exploring further cooperation in civil space, including areas such as space exploration, satellite navigation, and earth science. In addition, agreements are in the way that will allow for the launching of US satellites and satellites containing US components by Indian launch vehicles.<sup>153</sup> India and the US have also agreed to enhance joint activities in space cooperation including in-space navigation and in the commercial space arena. There is a US-India Joint Working Group on Civil Space Cooperation that considers joint activities.<sup>154</sup>

Both the countries are also working together to meet India's rising demand for energy by looking at new technologies to produce clean, safe, and reliable energy.<sup>155</sup> India has joined with the US, Russia, the European Union (EU), Japan, the Republic of Korea and

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<sup>151</sup> US-India joint statement, *White House press release*, 2 March 2006.

<sup>152</sup> "India-US Consolidating Strategic Partnership", *India Review*, Embassy of India, Washington D. C., Vol.2, Issue.3, March 2006.

<sup>153</sup> Fact Sheet: United States and India: Strategic Partnership, *The White House Press Release*, 2 March 2006.

<sup>154</sup> "India-U.S. Relations: A General Overview", Embassy of India, Washington DC, available at: [http://www.indianembassy.org/New\\_Template/induspoldec05.asp](http://www.indianembassy.org/New_Template/induspoldec05.asp), accessed on: 7 January 2007

<sup>155</sup> Indo-US Joint Statement, Washington DC, 18 July 2005, *IPRI FACTFILE*, April 2006, Vol.VIII, No.4.

China in the International Thermonuclear Experimental Reactor (ITER). The US and India, together with Australia, China, Japan and the Republic of Korea, agreed to work on practical ways to improve energy security, improve air quality, and reduce greenhouse gas emissions in the ways that foster economic growth. In the G-8 Summit of 2007, the US President reiterated the importance of India for dealing with environmental issues.

The US and India are cooperating to expand efforts at combating and preventing HIV/AIDS. They also agreed to expand bilateral cooperation in a number of areas including containing avian influenza, reaching out the private sector, developing regional communications strategies, and planning an in-region containment and response exercise. President Bush and Prime Minister Singh agreed to further strengthen cooperation on HIV/AIDS by leveraging resources, knowledge, and expertise. The US increased funding in FY2006 for HIV/AIDS prevention, care, and treatment programmes to US \$29.3 million.<sup>156</sup> They established an Indo-US Corporate Sector Fund for HIV/AIDS, which is a partnership among the US and Indian businesses to fight AIDS. Six companies have already pledged a total of US \$1.2 million to the Fund.<sup>157</sup> The US Food and Drug Administration have given approval to 13 generic antiretroviral drugs produced by Indian pharmaceutical companies. These drugs can now be purchased as part of the President's Emergency Plan for HIV/AIDS for the use around the world.

Based on their common values and interests, the US and India have affirmed their joint commitment to promote freedom and democracy, and assist the countries in transition.<sup>158</sup> They agreed to work together to support the growth and development of vibrant civil societies, including independent media and non-governmental organizations in countries that seek such assistance. The US policy makers consider India as a dependable one for its democratic

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<sup>156</sup> Fact sheet: United States and India: Strategic Partnership, *op. cit.*

<sup>157</sup> *Ibid*

<sup>158</sup> Indo-US Joint Statement, Washington DC, 18 July 2005, *IPRI FACTFILE*, April 2006, Vol.VIII, No. 4.

identity. Both countries feel some sort of similarity in this regard. On the other hand, Indian Diaspora in the US has forged a high forum of two level consultations between India and the US. The business communities of both countries are also playing an influential role in this respect. Hence, both the countries are expanding their partnership in different aspects of bilateral cooperation.

## **5. Implications for South Asia and Beyond**

The US has become the most influential power in South Asia in the post-Cold War period.<sup>159</sup> Hence, it is not too much to say that the US policy towards South Asia affects all the vital issues of the region. Therefore, the governments of the countries of this region have been eager to have a good relationship with the US. However, because of India's unmistakable preeminence in the region, the US has given more priority to India in its South Asian policy.<sup>160</sup> As a result, the bilateral relationship between India and Pakistan has also been affected.<sup>161</sup> The international community including Japan, South Korea, China, the EU, and Iran, has become more interested in fostering their relations with India.

However, the Indo-US partnership has impact on the following issues: Firstly, the stature of India has further been elevated in the regional and international arena. Secondly, Pakistan became anxious about the US policy towards the region. Thirdly, this partnership becomes a great concern for Kashmiri people, who are fighting for their autonomy. They are afraid that the Indo-US partnership could damage their legitimate demand. Fourthly, it increased the US engagement in South Asia. Fifthly, the small countries of South Asia are concerned that this partnership could affect their relationship with India and the US. Sixthly, Indo-US partnership could make other extra regional powers more interested in South Asia. What

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<sup>159</sup> *Ibid*

<sup>160</sup> *Ibid*

<sup>161</sup> Ahmed Ijaz Malik, *op. cit.*

follows is a discussion on regional and extra regional implications of Indo-US partnership.

### ***Regional Implications***

The US nuclear deal with India and its denial to sign such a deal with Pakistan indicates that the US has changed its policy in South Asia. The US deal with a country which did not sign the NPT created questions about the future of NPT. It may encourage other countries, especially Pakistan, for further development of nuclear weapons.<sup>162</sup> In addition, the US termed India as “a responsible state with advanced nuclear technology.”<sup>163</sup> US recognition to India as a nuclear power will help India to use advanced nuclear technology.<sup>164</sup> Pakistan openly expressed willingness for nuclear deal with the US.<sup>165</sup> Pakistan’s Ambassador to the United States said that Pakistan “should have the same access to the US civilian nuclear technology that President Bush has proposed for India.”<sup>166</sup> However, there was no positive response from the US.

India, on the other hand, is aspiring to be a global power in the coming days. As Raja Mohan noted, “India is arriving on the world stage as the first large, economically powerful, culturally vibrant, multiethnic, multi-religious democracy outside of the geographic West. As it rises, India has the potential to become a leading member of the “political West” and to play a key role in the great political

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<sup>162</sup> Rashid Ahmad Khan, “Indo-US Nuclear Deal: Implications for the Region”, *op.cit.*

<sup>163</sup> K.Alan Kronstadt, CRS report for congress: US-India bilateral agreement in 2005, *IPRI FACTFILE*, April 2006, Vol.VIII, No. 4.

<sup>164</sup> Strobe Talbott, “Good day for India, Bad for Non-proliferation”, *Daily Times*, 25 July 2005.

<sup>165</sup> Dr. Rashid Ahmad Khan, “Indo-US Nuclear Deal: Implications for the Region”, *op.cit.*

<sup>166</sup> “Give Pakistan civilian nuclear technology”, Editorial, *Daily Times*, 10 September 2005.

struggles of the next decades”.<sup>167</sup> The strategic partnership with the US has already elevated the stature of India in the world arena.

For ensuring economic prosperity of South Asia, regional stability is very important. The stability of South Asia depends on the substantive confidence and security building measures in the region.<sup>168</sup> Due to China’s neutral position relating to the issues of South Asia and the US willingness to ensure stability might create a new confidence-building mechanism in the region.<sup>169</sup> The Indo-US partnership also implies that India will get the first priority for any US engagement in the region. On the issue of energy generation, the US chose only India as a partner, while denying Pakistan the same privilege. After the Indo-US nuclear deal, the US Assistant Secretary of State for South and Central Asia, Richard Boucher said, “Our energy dialogue with Pakistan is going to differ from our energy discussions with India. One should not expect that (Pakistan’s) energy needs would be meeting the same way, given different geography, different history, and different resource base.”<sup>170</sup> Another US official Samuel Bodman said, “Our strategic partnership with Pakistan does not include discussion on civilian nuclear energy. It was not at all the subject of my discussions with the Pakistani authorities.”<sup>171</sup> The policy shift by the US has influenced the policy of the US allies (Japan, UK, and EU) and potential competitors (China, Russia, and Iran). All these powers give priority to India in their South Asian policy.

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<sup>167</sup> C Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, July-August 2006.

<sup>168</sup> Shireen M Marzari, “From non-proliferation to nuclear stability: The case of South Asia”, *Defence Journal*, March 2000.

<sup>169</sup> Noor ul Haq, “Unipolarism and Pak-US relations”, *IPRI Journal*, Winter 2006, Vol.VI, No.1.

<sup>170</sup> *Dawn*, 13 March 2006.

<sup>171</sup> *Ibid*.

Furthermore, the partnership with the US will ensure a new status for India in the international arena. It will ensure India's more active role in the international organisations. India could have the opportunity to play a more important role in the UN. India's more engagement in the international arena will ensure enhanced economic and strategic standing of the country. From a strategic point of view, India could be a more active global player. On the other hand, from an economic perspective, India will be economically more beneficial. India is one of the largest markets in the world. Therefore, its warm relations with the US can influence international community to engage with India in terms of trade and economic relations.

India is the largest democracy in the world. In view of some US policy makers, this generates a kind of US responsibility for engaging herself with India.<sup>172</sup> Another important point, in this regard, the US perceives that the process of democratisation can ensure the stability and prosperity of a region.<sup>173</sup> This makes the US to act as a promoter of democracy at the global level. Therefore, the US is likely to promote a process of democratisation in South Asia. In this respect, the US may coordinate its activities in the region with India. Furthermore, the US also thinks that none of the democratic countries can be the hub of terrorism. Therefore, the issue of countering terrorist threat is dependent on democracy or lack of it. In this respect, the US will try to work with India for ensuring democratic process in South Asian countries.

The conflict over Kashmir has been the most dangerous one since the independence of India and Pakistan in 1947. The nuclear test in 1998 added a new dimension to the Kashmir issue. During the Cold War, the US and China supported Pakistan on Kashmir issue. By now, China has taken a neutral position on the issue.<sup>174</sup> On the

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<sup>172</sup> Indo-US joint Statement on 18 July 2005.

<sup>173</sup> Richard A. Boucher, "The United States and South Asia: An expanding agenda, U. S. Department of State", 17 May 2006, available at: <http://www.state.gov/p/sca/rls/rm/2006/66374.htm>, accessed on: 8 January 2007.

<sup>174</sup> Sun Shihai, "China-Indian Relations in the 21<sup>st</sup> Century", Institute of Asia-Pacific Studies, 7 September 2002, available at: <http://www.casas-pkucis.org.cn/ZuiXinCG/showcontent.asp?iD=32>, accessed on: 5 January 2007.

other hand, the US has taken a neutral stand with a tilt towards India.<sup>175</sup> The position of China and the US would debilitate Pakistan's demand on Kashmir.

Pakistan is one of the important partners of the US in the global war against terrorism. But the US partnership with India has generated a serious concern in Pakistan. At the same time, Pakistan wants to continue its relations with the US for containing any threat from India. An important factor, Pakistan has developed a kind of dependency on the US on a wide number of issues.<sup>176</sup>

### ***Extra Regional Implications***

The strategic partnership between India and the US has become a significant concern for China.<sup>177</sup> China is being increasingly considered by the US as a potential threat to its interests at the regional as well as global level. President Bush said that the US must view China as a "strategic competitor" rather than "strategic partner" as the Clinton administration did.<sup>178</sup> The US policy of containing China through strengthening India made China a potential partner of other South Asian countries. China, however, has assumed a neutral position regarding the issues of bilateral discord between India and Pakistan. During Chinese President's last visit to India and Pakistan in 2006, China expressed its willingness for continuing a strong relationship with the countries of this region. China expressed eagerness for nuclear deal with India.<sup>179</sup> Chinese President made it

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<sup>175</sup> *Dawn*, 25 February 2006.

<sup>176</sup> [Annpurna Nautiyal](#), "Current Trends in India-U.S. Relations: Hopes for a Secure Future", *Strategic Insights*, Vol.V, Issue 4, (April 2006).

<sup>177</sup> [Ms Uma Purushothaman](#), "Implications of the 123 Agreement on India's Foreign Policy", *Strategic Perspectives*, The United Service Institution of India, July-September 2007.

<sup>178</sup> Noor ul Haq, *op. cit.*

<sup>179</sup> B. Rahman, "India-China: Hype and Reality", Part.II, China Monitor Paper no.2, Paper no. 2042, *South Asian Analysis Group*, 30 November 2006. available at: <http://www.saaq.org/%5Cpapers21%5Cpaper2042.html>, accessed on: 22 December 2007

clear that Beijing does not consider Indo-China relations as a matter of political expediency, but considers it “from a strategic and long-term perspective.”<sup>180</sup> It seems that China does not want to involve itself in intra-regional discord and wants to contain the presence of the US in the region by strengthening its relations with all the countries of the region. It is relevant to clarify here that China is putting more emphasis on the issue of trade and energy cooperation in its dealings with the countries of the region. However, some observers are concerned that the Indo-US deal will encourage China for such a deal with Pakistan.<sup>181</sup> Nonetheless, China remains far from considering such a deal with Pakistan.

On the other hand, the US considers that Shanghai Cooperation Organization (SCO) may pose a threat to the US interests in Central Asia.<sup>182</sup> Both India and Pakistan are the observers of the organisation. But the Indo-US nuclear deal created confusion among the countries of the SCO about India’s future role in the region. The countries of the region are concerned about the growing Indo-US nuclear cooperation. In this respect, Pakistan will be more interested in membership in the SCO and China is also in favour of the inclusion of Pakistan in the SCO.<sup>183</sup> It may give an opportunity for Pakistan to counter India in the region. China may try to contain India under the psyche of the SCO. At the same time, China might think that the membership of India in the SCO would give an opportunity for the US to ensure its presence in the South and Central Asia through India. On the other hand, China also can think

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<sup>180</sup> Praful Bidwai, “New Turn in China-India relations?”, *Trans National Institute*, 5 December 2006, available at: [http://www.tni.org/detail\\_page.phtml?act\\_id=16038&username=guest@tni.org&password=9999&publish=Y](http://www.tni.org/detail_page.phtml?act_id=16038&username=guest@tni.org&password=9999&publish=Y), accessed on: 22 February 2007

<sup>181</sup> US scholar Noam Chomsky gave such a view in Washington on 31 May 2007, as reported in *Dawn*, 1 June 2007.

<sup>182</sup> “Shanghai Cooperation Organization’s Growing Influence Felt Worldwide”, *J/INSA Online*, 3 December 2006, available at <http://www.jinsa.org/articles/articles.html/function/view/categoryid/884/documentid/3607/history/3,2360,884,3607>, accessed on 3 March 2008.

<sup>183</sup> *Peoples Daily*, 5 June 2005.

that the inclusion of India in SCO may help creating an Asian community in the region.<sup>184</sup>

Indo-US partnership is also a challenge for Indo-Iranian relations. India and Iran has long-standing economic and cultural relations. According to Indian Ministry of External Affairs, India and Iran enjoy “historical ties.”<sup>185</sup> In its most recent annual report, the Ministry claims, “The year 2004-2005 saw further deepening and consolidation of Indo-Iranian ties,” with “increased momentum of high-level exchanges” and “institutional linkages between their National Security Councils.”<sup>186</sup> Independent India and Iran maintained a relationship that could be characterised as being correct, despite Iran’s close relations with Pakistan and its participation in the US-backed military alliances. India’s emergence as a predominant power in South Asia after the independence of Bangladesh in 1971 and the unprecedented upsurge in oil prices resulted in economic cooperation between India and Iran. The Islamic revolution in Iran in 1979 and consequential severe deterioration in Iran-US relations generated a significant urge in Iran for improving relations with India, which also had a close collaboration with Iran’s arch enemy Iraq. The Soviet withdrawal from Afghanistan and the subsequent emergence of Taliban as the rulers of Afghanistan have put India and Iran on sharp alert. Deterioration of Iranian relations with Pakistan and the convergence of Indo-Iranian interests concerning Afghanistan and Central Asia have gradually cemented a mutually beneficial multifaceted relationship between Iran and India.<sup>187</sup> During the last decade, the

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<sup>184</sup> Bhartendu Kumar Singh, “India, China and the Prospects of Asian Economic Community”, Institute of Peace and Conflict Studies (IPCS), India, 21 August 2007, available at [http://www.ipcs.org/South\\_Asia\\_articles2.jsp?action=showView&kvalue=2375&country=1016&status=article&mod=a](http://www.ipcs.org/South_Asia_articles2.jsp?action=showView&kvalue=2375&country=1016&status=article&mod=a), accessed on: 3 March 2008.

<sup>185</sup> K. Alan Kronstadt and Kenneth Katzman, "India-Iran Relations and U.S. Interests," *CRS Report for Congress RS22486*, 2 August 2006.

<sup>186</sup> *Ibid.*

<sup>187</sup> Harsh V. Pant, “India and Iran: An Axis in the Making?”, *Asian Survey*, May-June 2004, Vol.44, No.3, pp.369–383.

region's changing milieu strengthened this relationship in the field of security, energy, scientific and technical cooperation, defence and a number of other areas.<sup>188</sup> But the latest role of India in the International Atomic Energy Agency (IAEA) on the issue of Iran created certain misgivings in the bilateral relations of the two countries.<sup>189</sup> Indian officials, however, explained their decision in terms of helping to devise diplomatic solution to the impasse and encouraging the concerned parties to eschew confrontation and inflexibility.<sup>190</sup>

India needs friendship and cooperation with Iran for many reasons including energy security, access to Central Asia and Afghanistan, and stability in the Gulf. Indian and Iranian strategic planners might be worried about the massive US military presence that will be a long-term one in the Gulf region, Afghanistan, Pakistan and Central Asia. On the other hand, the reconciliation of Pak-Iran relations indicates that Iran wants to engage herself with the South Asian countries.<sup>191</sup> Furthermore, the observer status of Iran in SAARC generated speculations that Iran could also be a player in South Asia. However, the issue of tri-nation pipeline may decide the future direction of Iran's engagement with South Asia.<sup>192</sup>

The Indo-US partnership has made Israel more interested in promoting bilateral relations with India. India and Israel have already established a closer relationship.<sup>193</sup> During the Cold War period,

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<sup>188</sup> C. Christine Fair, *op.cit.*

<sup>189</sup> *Ibid.*

<sup>190</sup> *The Telegraph*, 25 September 2006.

<sup>191</sup> Shah Alam, "Iran-Pakistan Relations: Political and Strategic Dimensions", *Strategic Analysis*, Vol.28, No.4, 2004.

<sup>192</sup> Ingolf Kiesow, "The rise of India: Problems and Opportunities", *Silk Road Papers*, January 2007, Central Asia-Caucasus Institute & Silk Road Studies Program, Johns Hopkins University, Washington, available at: <http://www.silkroadstudies.org/new/docs/Silkroadpapers/2007/0701India.pdf>, accessed on 3 March 2008.

<sup>193</sup> Noor ul Haq, *op. cit.*

India was totally against Israeli aggression against the Arab countries. The Nehruvian foreign policy was against the “Zionist country Israel.” At present, India is developing calculated relations with Israel. Both countries think that they are surrounded by the enemy countries, which are the hub of Islamic terrorists. Israel has also played an influential role for developing Indo-US relations. Both countries already decided to have cooperation in exchanging intelligence information.<sup>194</sup> Indo-US strategic partnership as well would contribute to the strengthening of bilateral relations between India and Israel. It will also increase Israeli influence in South Asia region. In this respect, Pakistan already expressed its willingness for establishing relations with Israel.<sup>195</sup> Thus, other countries, especially, the Muslim countries of South Asia, Southeast Asia or other regions could re-examine their relations with Israel.

The Middle East has close religious and historic relations with the countries of South Asia. One of the greatest religions Islam came from Middle East to South Asia. As Muslim countries, Bangladesh and Pakistan, are always maintaining historic relations with the countries of the Middle East region. India also has close economic relations with all the countries of the region. The larger chunk of India’s oil comes from the Middle East.<sup>196</sup> India, on several occasions, expressed its willingness to be a member of the Organization of the Islamic Conference (OIC) on the ground of a very large Muslim population in India. While it is not yet clear how far India would go in its current drive for the development of mutually beneficial cooperation with Israel, India’s increasing cooperation with Israel may have certain negative impact on India’s relations with the Middle East.

## **6. Concluding Remarks**

The end of the Cold War and post 9/11 developments brought a significant change in the US policy towards South Asia. In the

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<sup>194</sup> B. Murlidhar Reddy, "Pak concern over 'Indo-Israeli nexus,'" *The Hindu*, 9 September 2003.

<sup>195</sup> Syed Saleem Shahzad, "Pakistan seeks relief through Israel ties", *Asian Times*, 17 March 2005.

<sup>196</sup> Chintamani Mahapatra, *Indo-US Relations into the 21st Century*, (Knowledge World, New Delhi: 1998), p.112.

changed context, Asia has become a significant centre of great power competition. China, India and Japan are the rising major powers in Asia. The US has maintained a strong alliance relationship with Japan when China has become a potential threat to the US interests in Asia. Under the circumstances, the US came to embrace India, a democratic country with the second largest army in the world, as an important ally. India has also been considered as a natural ally of the US in its war against terrorism as India often claims that it is also a victim of terrorism in Kashmir. South Asia is closely located to the Middle East and Central Asia, two energy-rich regions. The Indo-US strategic partnership, among others, is also designed to secure access to the energy resources of the two regions.

On the other hand, India considers that a strong partnership with the US would help it promote its status in the international arena. The partnership will ensure India's predominant position in South Asia. India will get more economic and technological assistance from the US. The partnership may also be able to ensure energy security and defend its own land from the threat of terrorism. Therefore, a new strategic vision influenced both the countries for forging cooperation in different areas including technology, trade, energy, counter terrorism and so on. They also agreed to cooperate on the regional and international issues of mutual concern.

The strategic relations have introduced a new dimension in South Asia. Pakistan, the oldest ally of the US in South Asia, is concerned about the new US policy in the region. Pakistan fears that the Indo-US partnership could damage its vital national and regional interests. The strategic partnership has both positive and negative implications for the smaller South Asian countries. They are concerned that India's close relations with the lone super power would make India to be more dominant in the region. As a positive impact, Indo-US partnership, especially, huge trade and economic activities between the two countries can also bring similar opportunities for the smaller countries of the region.

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