

Indispensable partners, unfinished business

Beyond investment, India and Japan must build the missing middle of suppliers, skills and institutions

“India and Japan are natural and indispensable partners,” the two countries’ leaders declared at their 16th Annual Summit held earlier this year. The relationship is now backed by a 10-trillion yen target for private Japanese investment in India over the next decade; an Economic Security Initiative spanning critical minerals, semiconductors, information and communication technology (ICT) and Artificial Intelligence (AI), clean energy and pharmaceuticals; new cooperation on batteries, mobility and technology; and the first significant India-Japan defence co-development project.

Both governments have also agreed to review the 2011 Comprehensive Economic Partnership Agreement, recognising that 15 years on, economic ties have not kept pace with the diplomatic relationship. Japan still sources less than 1% of its merchandise imports from India, scarcely changed in four decades. Japan’s share of India’s imports has slipped from over 10% to about 2.5%, and of India’s exports from roughly 11% to 1.5%.

Investment is more encouraging: India’s share of Japan’s outbound investment has risen from 0.1% in the mid-1990s to about 4%. But nearly three-fifths of it lies outside manufac-

turing, with finance and insurance alone accounting for over a third. Within manufacturing, transport equipment, led by Suzuki’s early bet on Maruti, makes up more than half. Electronics and machinery together are barely 9% of the total.

What remains missing is the middle: the suppliers, intermediaries, institutions and people that turn headline commitment into a working factory, a qualified vendor, or a filled job. Japanese investment has built impressive plants in India but remains shallowly rooted in the local supplier base. The opportunity is to deepen these roots.

The complementarities are sharpest where supply chains are most fragile. Take semiconductors. India has committed ₹76,000 crore (about \$7.8 billion) in incentives to build a chip industry. Japan is the leading exporter of the machinery and inputs needed to make chips. Yet India sources over 60% of its chipmaking equipment from China. A dedicated channel, with Japanese tools flowing to India and Indian chips flowing back to Japan, would make both countries less vulnerable.

More than 90% of refined rare-earth supply is concentrated in China. Japan launched a \$1.1 billion diversification drive after a 2010 supply disruption, yet China still supplies about half its rare-earth imports. Resilience takes years. India holds the world’s third-largest reserves but refines a sliver of what it can mine: 5,000 tonnes of refining

capacity against 10 million tonnes of mining capacity. Japan invented the neodymium magnet and still supplies 8.8% of the world’s permanent magnets. A rare-earth corridor, with Japanese firms refining and making magnets in India using Indian engineering talent, would broaden Japan’s sources of supply and seed a supply chain for India’s own EVs and electronics.

Resilience means having no single point of failure. India and Japan can become each other’s second source and, in time, the first.

Japanese manufacturing runs on long-standing supplier relationships. Indian small firms often find these networks hard to enter: Qualification cycles are long, quality norms unfamiliar, and information gaps wide. Closing them needs patient intermediation: supplier-development programmes run jointly by Japanese anchor firms and Indian industry bodies; shared testing and certification facilities in industrial clusters; and platforms that match Japanese corporates with Indian startups. Joint labs between Japanese companies and Indian universities would give Indian firms a stake in the technology, not merely the assembly.

The third complementarity is demographic. Japan’s ageing population has left industries short of workers; India has a vast young workforce it is racing to skill. Yet Indians make up just 0.3% of interns under Japan’s Technical Intern Training Program (TITP).



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That programme is being replaced from 2027 by the Employment for Skill Development (ESD) system, which allows workers to change employers and offers a route to longer-term status — a welcome reform, and one India should position itself for early rather than late. India can build a pipeline into ESD to fill Japan’s labour gaps, through Japanese-language training in Industrial Training Institutes and polytechnics and mutual skills recognition. Sparing Indians this year’s visa-fee increase helped; easier pathways for students and researchers can follow. People who know both countries are precisely the intermediaries the missing middle lacks.

A fourth complementarity lies in capital itself. Japan’s Government Pension Investment Fund, with nearly \$2 trillion in assets, allocates 30% to the US and less than 1% to India. Japanese investors account for about 3% of foreign portfolio holdings in Indian securities. As Indian markets deepen and join global bond indices, even a modest reallocation by Japanese pension funds, insurers and households would be large by Indian standards.

Finally, the two countries need a clear way to track results. Every initiative must carry measurable targets, from Indian suppliers qualified into

Japanese chains and magnets made in India to interns placed and Japanese institutional capital invested, reviewed publicly at each annual summit. A joint delivery unit, working with state governments, could clear bottlenecks. An updated trade agreement can address what still slows business: standards, certification and visas.

Kautilya advised rulers to turn to trusted friends in hard times. At the Kautilya Economic Conclave, external affairs minister S Jaishankar pointed to Japan as an example of India opening to transparent, mature markets with greater purchasing power. The opportunity of the next decade is to let trade, capital and people move freely enough to build true resilience.

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