

別冊・中東研究 中東各国動向(2019)

**Journal of Middle Eastern Studies
(Middle East Trend 2019)**



公益財団法人 **中東調査会**

Middle East Institute of Japan

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Japan, India and the Chabahar Connect in the Indo-Pacific

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1. Introduction

Major Powers are debating the strategic contours of the Indo-Pacific construct amidst an intensifying Sino-US contest. China's emergence as a major power in the international system is leading to structural changes in the distribution of power as it challenges the existing equities of the US and its allies. President Xi Jinping's pursuit of the China Dream is reorienting the global structures, rules, norms and hierarchies with the aim of creating strategic opportunities for Beijing through grand designs like the Belt and Road Initiative (BRI). As China is, to a certain extent, "returning"¹ not merely rising to regional pre-eminence, it is demanding equity in the international system. President Xi Jinping is shaping the discourse with concepts like "new type of international relation featuring win-win cooperation"² and building a "community of common destiny."³

While China argues that its geopolitical ambitions are mutually beneficial, Trump administration's National Security Strategy (NSS) underscores Washington's assessment of Beijing as a "revisionist" power that engages in dislodging the US in the Indo-Pacific and engineering a favorable global order "antithetical to US values and interests." Furthermore, US's National Defense Strategy has articulated that Beijing uses predatory geo-economic instruments to optimize its strategic influence. Chinese endeavour at restructuring the regional order has manifested in all the key sub-regions of the Indo-Pacific geography including Southeast and South Asia, Middle East and Africa.

Prime Minister Abe Shinzo has envisaged Japan's role as a promoter⁴ of liberal rules-based order and a custodian of the global commons. Through the Cold and post-Cold War years, academic literature often evaluated Japan's policy decisions within the frame of a reactive state. Arguing against the reactive state notion, Prime Minister Abe framed Japan as a "Proactive Contributor to Peace," reinforced by the concept of positive pacifism.⁵ There is a school of thought arguing that Japan needs to contribute to international security by moving from passive/negative pacifism to active/positive pacifism.⁶ In this regard, the Cabinet approval to dispatch the Self-Defense Force (SDF) for intelligence-gathering mission to the Middle East to guarantee the safety of Japan-related commercial ships demonstrates Tokyo's pledge to be a constructive player in preserving stability in the Middle East.

As Yachi Shotaro-Kanehara Nobukatsu's value-based grand strategy, entrenched in the rationale of universal values, garnered importance in Prime Minister Abe's both first and second administrations, India emerged as an important axis in all its strategic formulations, including the "Arc of Freedom and Prosperity," "Confluence of the Two Seas," Asia's "Democratic Security Diamond" and the latest Free and Open Indo-Pacific Vision. Japan's strategic quest for keeping the Indo-Pacific free and open has accorded space to Delhi in its grand strategy.

Tokyo's strategic approach towards Delhi is influenced by a few key variables: rise of China in the global system; erosion of US primacy in the region; qualitative depth in US-India relations; shared responsibility of securing trade and energy routes in the maritime domain; and the prospective market of

India.⁷ Meanwhile, as India’s strategic rational steered through the policy course of “Look East” to the latest “Act East”, Japan emerged as an crucial strategic partner and a “key player in India’s modernization”.

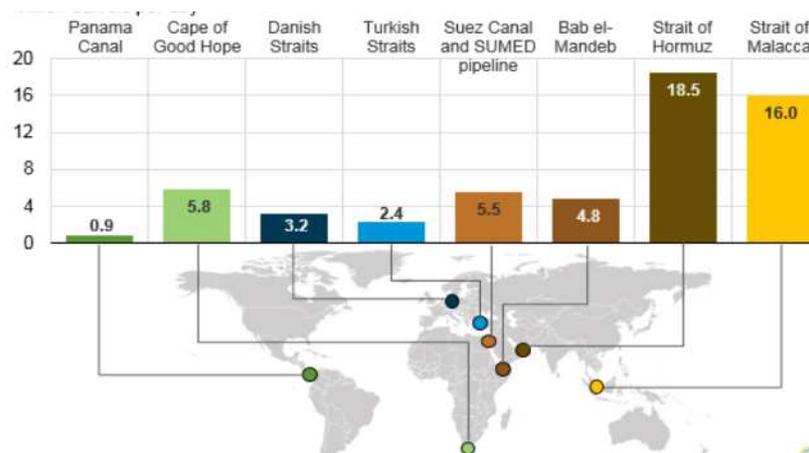
Japan and India, two of the most powerful Asian democracies and economies, weaved a Joint Indo-Pacific Vision 2025. The objective is to “realise a peaceful, open, equitable, stable and rule-based order in the Indo-Pacific region and beyond. Japan and India uphold the principles of sovereignty and territorial integrity; peaceful settlement of disputes; democracy, human rights and the rule of law; open global trade regime; and freedom of navigation and overflight. They pledged to work for peace, security and development of the Indo-Pacific region toward 2025 underpinned by these principles.”⁸

As the concept of Indo-Pacific evolves, a few common variables characterize Japan-India “winning combination” in the Indo-Pacific. These include: supporting ASEAN centrality and respect for shared universal norms and values; advancing infrastructure and connectivity among and between the sub-regions, including Bay of Bengal, the Mekong region, and the Indian Ocean, in support of economic integration and leveraging regional production networks and value chains; and safeguarding maritime commons by underpinning security cooperation with like-minded strategic partners.⁹

2. Middle East as a subset of the Indo-Pacific

The Indo-Pacific construct encompasses different sub-regions and each of this is driven by a differing sets of political, economic, and security underpinnings. Oil (see figure 2), trade routes, and geography constitute the strategic importance of the Middle East. So maintaining stability in Middle East is essential. This often led major powers to fiercely compete in the Middle East to reconfigure the geostrategic and geo-economic order to their advantage in pursuit of their respective national interest.

Figure 1: Petroleum Transit (2016)



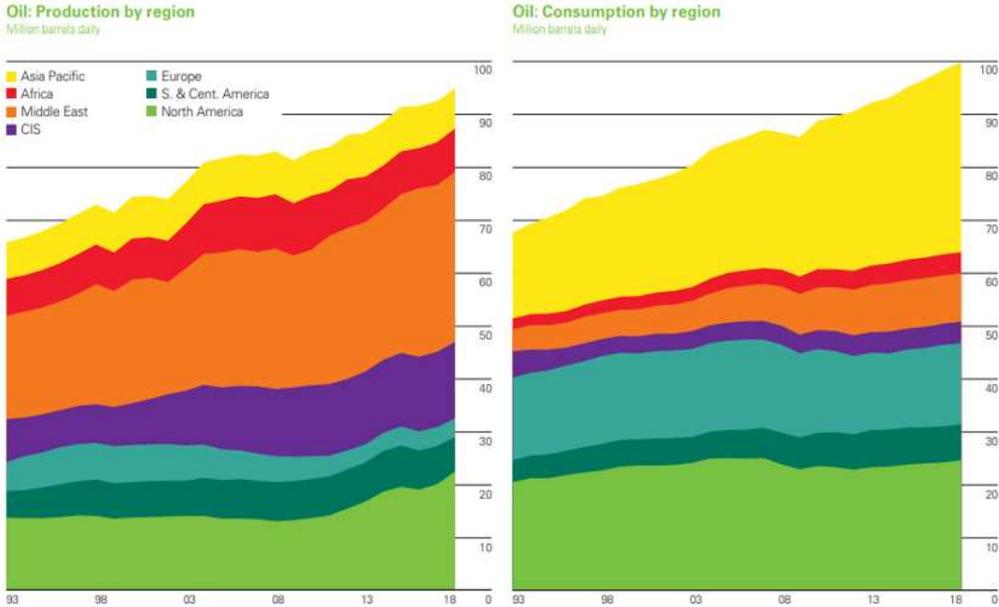
[Source: The U.S. Energy Information Administration (includes crude oil and petroleum liquids)]

Given the latest escalation of tensions in the Middle East between Iran and its geopolitical rivals and developments in the Strait of Hormuz, maintaining energy security and freedom of navigation are very important. Strait of Hormuz features amongst one of the world’s most strategic chokepoints,¹⁰ hosting oil flow of 17 million barrel/day, representing 30 percent of all seaborne-traded crude oil during 2015. In the

following year, total flows through the Strait witnessed a northward movement of 18.5 million barrel/day (see figure 1). According to Energy Information Administration (EIA) evaluations, approximately 80 percent of the crude oil that flowed through the Hormuz Strait was for Asian markets, including China, Japan, India, South Korea, and Singapore. Furthermore, BP’s Statistical Review of World Energy indicates that in 2016, Qatar exported approximately 3.7 trillion cubic feet of LNG through Hormuz Strait, representing 30 percent of global LNG trade.

New Delhi defined the areas of maritime interest in its Maritime Doctrine. The primary areas include: the Persian Gulf and its littoral, which is the source of majority of India’s oil supplies and gas imports, and is home to millions of expatriate Indians; the Gulf of Oman, Gulf of Aden; the choke points leading to, from and across the Indian Ocean, including the Straits of Hormuz and Bab-el Mandeb.^{1 1}

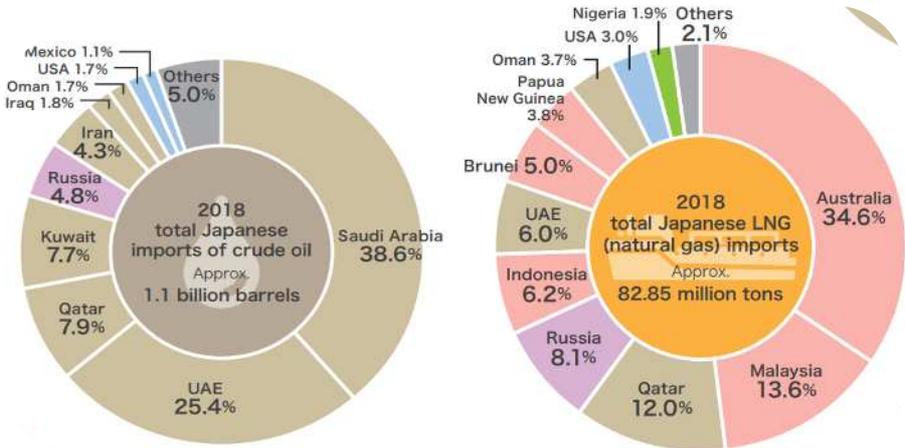
Figure 2: Region wise oil production and consumption



[Source: BP Statistical Review of World Energy 2019]

Therefore stability in the Middle East is crucial for fuelling the engine of Asian economies. Extra regional powers like Japan and India is forced to weigh its policy options towards the region. For instance, beyond diplomatic efforts, Japan has also taken on a proactive security role to safeguard navigational freedom which is vitally important for its energy security. As Japanese economy battles the gargantuan challenge of resource deficiency with energy self-sufficiency ratio of 9.6 percent (2017), relatively low when compared with OECD countries, stable supplies from the Middle East is essential for ensuring energy security. The weakness of Japan’s energy policy was revealed in the course of the 1973 oil crisis prompted by Organization of the Arab Petroleum Exporting Countries (OAPEC)’s oil blockade.

Figure 3: Japan’s Energy Imports



[Source: Japanese Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy]

Post-war Japan’s economic miracle was advanced by abundant and steady oil supply, particularly from the Middle East. But the 1973 oil crisis had adverse influence on energy intensive, export centric manufacturing sector in Japan. The oil shock made Tokyo aware of the importance of energy security for supporting economic advancement. Pragmatic strategies were introduced by Tokyo to decrease energy consumption and dependence on imported oil. This reduction was compensated with nuclear power and natural gas, which suffered a setback following the nuclear accident in the Fukushima Dai-ichi plant. According to Ministry of Economy, Trade, and Industry (METI) statistics, Japan sources 86 percent of its crude oil imports from the Middle East (see figure 3). In addition, for natural gas and coal, it depends more or less entirely on imports from Australia, Russia, Asia-Oceania and the Middle East. With the objective of securing an unwavering supply of energy, Japan is endeavoring to reinforce relations with the Middle East, especially countries that are its primary sources of crude oil. Meanwhile, Japan is also diversifying its supply sources, with acquisition of resource rights and interests, and attempting more active LNG transactions.

Meanwhile, as India is emerging as a potent economic force and a rising power in global politics, the strategic significance of Middle East is expanding. Even though India’s pivot to the region is defined by energy security, diaspora and remittances, it is also shaped by the Cold War fault lines, Pakistan, and the menace of terrorism. But for leveraging Middle East beyond energy and remittances, there is an urgent need to focus on the countries of this region as critical partners that can play a constructive role in India’s economic advancement.

To sustain the economic growth of India, energy consumption is anticipated to grow at a rapid pace with the potential to surpass China in the coming years. In this context, energy sourced from Middle East will be essential for India’s economic development. For India, nearly a quarter of its total imports is from the Middle East, with about 80 percent being crude oil and petroleum products. India’s reliance on the Middle East has augmented as the volume of its total oil imports has increased in the last 20 years. In 1990s, Middle East oil constituted around 40 percent of India’s total imports. In 2017, 64 percent of its oil imports were sourced from this region with Iraq, Saudi Arabia, Iran, United Arab Emirates (UAE), and Kuwait as key suppliers. India is also greatly reliant on natural gas from the Middle East. In 2017, Qatar provided for 52

connectivity issues have implications for regional security concerns, India's approach is founded on "norms of transparency, good governance, commercial viability, fiscal responsibility and respect for sovereignty and territorial integrity."^{1 2}

The Indo-Pacific has been charted by Delhi and Tokyo for an "action-oriented partnership" in The Vision 2025 where leaders argued in favour of coordinating bilaterally and with other countries - for example, within the India-US-Japan trilateral for progressing regional economic linkages, infrastructure and connectivity, capacity building, cultivating value chains and allowing industrial networks. Inter-regional and intra-regional connectivity and infrastructure building in Southeast Asia, South Asia, including Sri Lanka, Myanmar, and Bangladesh, and collaborative projects in Africa, has taken precedence.^{1 3}

Regional connectivity features as one of the fundamental themes in India's foreign policy including the "Act East" policy, "Connect Central Asia" policy, "Neighbourhood First" policy or linking the Indo-Pacific through Asia-Africa Growth Corridor^{1 4} (see figure 4). In 2016, during Prime Minister Narendra Modi's visit to Japan, the focus was on joining forces to promote "peace and prosperity in South Asia and neighboring regions, such as Iran and Afghanistan, through both bilateral and trilateral cooperations, inter-alia, in the development of infrastructure and connectivity for Chabahar."^{1 5}

India's dynamic economic energy, diplomatic clout and strategic drives have led Prime Minister Modi to articulate New Delhi's Indo-Pacific vision, pronounced as SAGAR— Security and Growth for All in the Region. SAGAR embraces a few of the important issues including reinforcing intra-ocean trade and investment and fostering blue economy; bolstering port connectivity among the Indian Ocean littoral states; and safeguarding sea-lanes from non-traditional and traditional threats to guarantee unrestricted movement of goods and ideas.

Since maritime routes facilitate 95 percent of India's trade by volume, it is vital to improve ports and trade-connected infrastructure to enable growth in the manufacturing sector under the "Make in India" program. It is important to grasp the opportunities that Indian Ocean highways offer and so connecting important geo-economic and geostrategic sub-regions is imperative in expediting India's economic development agenda.

The key objective of Prime Minister Modi's "Make in India"^{1 6} initiative is to elevate India as a potent economic pole in the global growth engine. But this is contingent on state-of-the-art infrastructure both inside India and beyond. Augmented regional connectivity will help in integrating India in the regional value chains, gaining access to emerging markets, sourcing energy supplies and raw materials to support India's economic development. India is building five Industrial Corridors^{1 7} and Dedicated Freight Corridors to promote a robust business ecosystem. In addition, India is strengthening connectivity and improving export competitiveness by developing port-proximate industrial clusters with the Sagarmala Program.

In this context, Japan is regarded as a foremost partner in India's modernization. Japanese development assistance is not only fuelling India's mega-infrastructure initiatives, including the Western Dedicated Freight Corridor, the Delhi-Mumbai Industrial Corridor, and the Mumbai-Ahmedabad Shinkansen project, but Tokyo's commitment is unwavering in advancing quality infrastructure and connectivity in the strategically important regions, such as the Northeastern region. Improved infrastructure and inter and intra-regional connectivity in the Northeast, repeatedly touted as India's gateway to Southeast Asia, is a key determinant in realisation of India's Act East policy. Japan and India have accelerated bilateral coordination in the South

Asian neighborhood, including pursuing the LNG terminal and the East Container Terminal at the Colombo Port in Sri Lanka, upgrading road and bridges on Ramgarh-Baraiyarhat section, offering rolling stock and constructing the Jamuna Railway Bridge in Bangladesh, and doing housing, education, and electrification projects in the Rakhine state in Myanmar.¹⁸

4. The Chabahar Conundrum

Despite the fact that both Japan and India demonstrated their interest in cooperating in Chabahar, Japan's involvement so far leaves much to be desired. There is only a small Japanese grant for custom equipment.¹⁹

India has been committed to the completion of the Chabahar Port notwithstanding external and internal limitations that adversely affected the project's advancement. Recognizing the need to advance transregional connectivity, in 2016 India signed a trilateral transit agreement with Afghanistan and Iran that allows passage of exports from India to Afghanistan through Iran. India has valued Chabahar to get access to Central Asia and beyond, in order to manage its lack of territorial contiguity with Afghanistan, which hampers bilateral trade between India and Central Asia. India recognizes the development of Chabahar Port as vital for the International North-South Transport Corridor (INSTC), envisioned to connect India and its extended neighborhood.

Chabahar Port is important to India for two things: accessing Afghanistan and also serving as a connection to Central Asia and the larger Eurasian region. Thus INSTC is key. It has been estimated that the INSTC would decrease the cost of Indian shipments by about US\$ 166 for each ton of cargo to Russia. India is also guided by its energy security, and apprehensions over the China-Pakistan alliance.

Chabahar is often compared to Gwadar which let China access the Indian Ocean via Pakistan, avoiding the traditional route passing through the Straits of Malacca and remains vulnerable to naval blockade by Beijing's rivals. It would also bring down the cost of China's energy imports by two-thirds. Moreover, the Gwadar Port gives China a foothold in the Straits of Hormuz and the Indian Ocean, both of which are part of its commercial shipping routes and crucial to its energy security.

In addition to the China-Pakistan nexus, Chabahar project is argued to be vital for India's geostrategic ambitions. It is important for both Delhi and Teheran to decrease their reliance on the Suez Canal for transporting cargo to Europe. Chabahar's strategic position is an advantage for the INSTC, which establishes connectivity between Europe, Central Asia, and India.

Chabahar is significant for Iran and Afghanistan too. For Teheran, the port is supplement to the Bandar Abbas Port. It would also decrease Iran's reliance on UAE port facilities for transporting cargo, often mentioned as Iran's financial and trading link. The susceptibility of using the UAE port facility was emphasized when US sanctions adversely affected Iranian oil exports.

As Afghanistan struggles to recuperate from the risks of civil war and instability, the Chabahar Port provides the landlocked country an alternative route to the Indian Ocean. Operationalization of Chabahar is important for Afghanistan to benefit as a least developed country in South Asia. The port would give Afghanistan better access to South Asian markets, together with India, the region's potent economy. Chabahar Port is noteworthy for all three, India, Iran, and Afghanistan for connectivity and economic benefits. Notwithstanding regular delays emanating from Iran's volatile relationship with the US and financial

constraints, India's commitment in Chabahar did not diminish. As a proof to this, India made efforts in its recent 2+2 with the US,²⁰ to keep the port out of US sanctions.

In addition, Chabahar–Zahedan–Mashhad railway is an important project. India is also interested in Chabahar–Faraj–Bam railway, which would link the Chabahar Port with the Iranian rail network, and Chabahar–Zaranj–Delaram–Hajigak rail network, which would establish connectivity with iron ore and steel project in Hajigak, Afghanistan, 559 miles from Chabahar.

As Delhi continues to perform an important role in enhancing political, social, and economic capacity in Afghanistan, the Chabahar Port will have a crucial role. The high point of Delhi's investment has been the building of the Zaranj–Delram Highway, with about US\$ 90 million. On the operationalization of the highway in 2009, India was clear in its purpose to connect this strategic route with the Chabahar Port. The Zaranj–Delaram Highway offers Afghanistan access to the sea and will be an alternative to Pakistan's Karachi Port. India's objective is realizing a stable Afghanistan.

Chabahar has substantial challenges to navigate including impact of overall US economic sanctions (despite the current exemption to the project) and instability in Afghanistan in addition to Iran's policy choices. As US continues economic sanctions on Iran in sectors including banking, insurance services, and energy, it is unfavorable for Indian firms participating in Iran's oil and gas sector. There are challenges in simplifying payment for the Iranian oil, as Teheran's access to global financial institutions and banks was affected. Also, the triumph of the Chabahar Port is contingent on the strategic stability of Afghanistan. Furthermore, Iran's policy choices are also shaping the project. Following the sanctions era, Iran has increasingly reached out to international players to participate and invest in the country's infrastructure sector, including other Asian countries such as Japan. It has also welcomed China and Pakistan. For a fair assessment it is also important to mention that a large part of India's Middle East policy is also underpinned by striking a balance between Iran and Saudi Arabia and GCC.

Meanwhile, there were some domestic oppositions reportedly from inside Iran as the Islamic Revolutionary Guard expressed reservations who may have earlier used the port to transfer arms to militias in Yemen and Somalia.²¹

Delhi's reasoning in pushing the Chabahar Port is not restricted to its interest in Afghanistan but also increasing regional connectivity and infrastructure to increase trade, in addition to managing the influence of China. But without permanent stability in Afghanistan, Chabahar port will have little consequence. Thus India's interest in the Chabahar Port is closely interweaved with the geopolitical changes in the region.

5. Going Forward, Japan Steps up as a Proactive Contributor to Peace

Within the framework of Abe's Free and Open Indo-Pacific Vision, Tokyo has demonstrated commitment towards enhancing connectivity between Asia and Africa, across the two anchors in the Indo-Pacific. Japan has pitched for "quality infrastructure" in 2015. The national policy for supporting infrastructure financing took shape by way of Partnership for Quality Infrastructure (PQI) which subsequently expanded in scope and became the EPQI. Japan's PQI was anchored on four pillars that include (a) full mobilization of its economic cooperation tools; (b) augmenting cooperation with the ADB including the expansion of its lending capacity by 50 per cent, extending the lending portfolio to private sector, and considering new cooperation mechanisms between JICA and ADB, to enable PPP in infrastructure investment

by using JICA's Private Sector Investment Finance; (c) doubling of funds for projects that have comparatively high risk profiles through JBIC for PPP infrastructure projects and use Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN); and (d) promoting of quality infrastructure investment as an international standard. The approach is to complement bilateral support through JICA and JBIC with multilateral commitments through the ADB, as a strategy for building high-quality infrastructure.

Despite the 2016 Joint Statement, Japan-India cooperation in Chabahar has not gained traction. With the overturns of the Trump administration's Iran policy, Japan as a formal alliance partner of the US is weighing the cost-benefit of such collaboration. Factoring in both national and international variables into consideration, Iran is pushing the development of Chabahar Port with assistance from various countries, not just India. This gives room to China. In this strategic context, Japan needs to revisit its position on Chabahar and step up cooperation with India, which often lacks the financial and technical clout of Tokyo. It will be a difficult test case of India-Japan infrastructure cooperation in third country but stakes are high for Japan as well in the stability of Middle East and Iran in particular. This is demonstrated by the high powered diplomacy of the Abe government with Iran in 2019. Moreover, stability in Afghanistan is also of great value to Japan who has established itself as a leading donor for the reconstruction of Afghanistan. Thus involvement in Chabahar will be an advantage for Japan.^{2 2}

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- ¹⁶ To build a strong Indian economy, Prime Minister Narendra Modi started the Make in India programme in 2014. Indian economy is presently founded on a dynamic services sector. With this initiative, Modi's aim is to enable India into a global manufacturing hub and increase the contribution of the manufacturing sector to 25 percent of the GDP by 2020. In this context, 25 thrust sectors are identified which includes automobile, electronic systems, electrical machinery, chemicals, biotechnology, pharmaceuticals, construction, railways, ports and shipping, roads and highways, renewable energy, oil and gas, defence manufacturing etc.
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