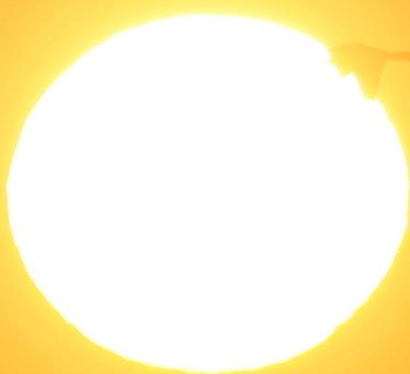


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*Fault Lines: A book
review by Professor
Menahem Prywes*
Pg 03

The Growth-Inflation
Dilemma: Who is the
Real Culprit
Pg 06

Loans for Developing
India, Gains for Japan ?
Pg 09

(Don't) Horn OK
Please !!!
Pg 11



Loans for Developing India, Gains for Japan?

Is it just good karma for developed nations to give aid to developing countries? Or is it actually good for their own development too? It is interesting to note that 95% of the United States' top trading partners were, at one time, US aid or loan recipients. Today, 45 percent of all U.S. exports go to developing countries which also happen to be the largest beneficiaries of American loans.

In this article I explore the benefit the aid giver receives from giving loans. While the article is primarily set in the context of Japan's loans to India, the same can be said for many other similar transactions. Also by no way do I intend to demean the loans that Japan gives to India nor do I intend to attribute any ulterior motives for these. It is an undeniable fact that some of the best development work in India has happened due to Japanese loans.

Japan recently announced "low interest" loans worth ¥210 billion to India. Indians received the news with much fanfare.

On closely examining the details of the loan details it can be inferred that this not philanthropic charity as perceived by many people. According to the World Bank, the prevailing lending rate in Japan is 1.3%. India repays a large part of the loan at a "Low Interest Rate" of 1.4%. Simple arithmetic indicates an earning of 0.1% on the loan for Japan. For a country that offers to its citizens practically 0% interest rate loans, which are still unsubscribed, the earning from the loan to India is beneficial.

Other interesting caveats to the loans reveal the benefit Japan will draw from this loan. The loans to India are given in Japan's national currency, the Japanese Yen. While Japanese, South Korean and European companies are bidding competitively for the infrastructure contracts linked to the loan funded projects, it is not difficult to guess companies of which country will be most open to payments in Japanese Yen.

While the Yen loans by themselves do not appear to confer much advantage for Japanese firms, a set of clauses in some loans to India state that contracts can only be given to organisations or projects having a Japanese company as the lead partner. This restriction not only ensures that major business opportunities are created for Japanese firms but, by restricting competition, the contract prices could also be higher than what might have been in an open market.

The Japanese loans are not to be spent as per India's sweet will. The loans are for specific projects and purposes. A major loan is for development of the Delhi-Mumbai industrial corridor. Is it just a coincidence that plenty of Japanese businesses are present in this industrial belt and will be a major beneficiary of the proposed development?

On announcing a major loan to India, President Obama conveyed to the American public that American loans to developing countries would generate thousands of jobs in America. By a very

“a set of clauses in some loans to India state that contracts can only be given to organisations or projects having a Japanese company as the lead partner”

similar logic the Japanese loans to India should be generating thousands of jobs back in Japan as well.

It is evident that the Japanese loans to India will reap plenty of benefits for Japan apart from the interest income. The multiplier effect on Japanese GDP cannot be ignored. While I am not arguing that the gains made by the Japanese are not justified, I am perturbed when the motives for these loans are ascribed to charity and goodwill.

The India-Japan story has only gained strength over the years. Both countries have geo-political ambitions that are synergetic. The strengthening of the G-4 and India's strong allegiance to the

group in-spite of lucrative incentives to break away signals the strength of the alliance.

“...to term the loans given by Developed Nations to Developing Nations as philanthropy would be a bit naïve...”

However to term the loans given by Developed Nations including those that are reeling under economic hardships to Developing Nations as philanthropy would be a bit naïve. Politics and

charity kept aside, economics seems to be the key driver behind these actions.

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