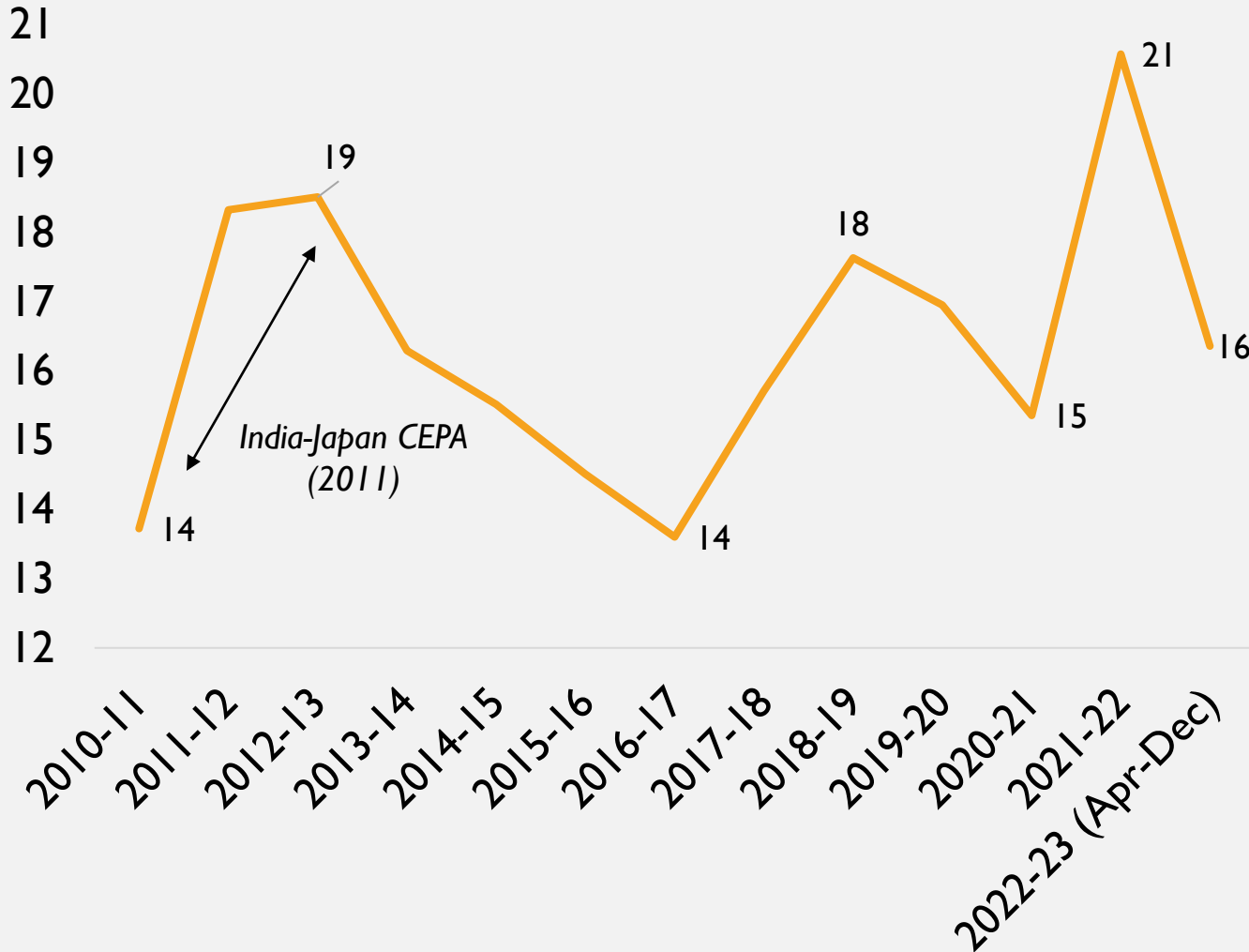


INDIA-JAPAN TRADE & FDI

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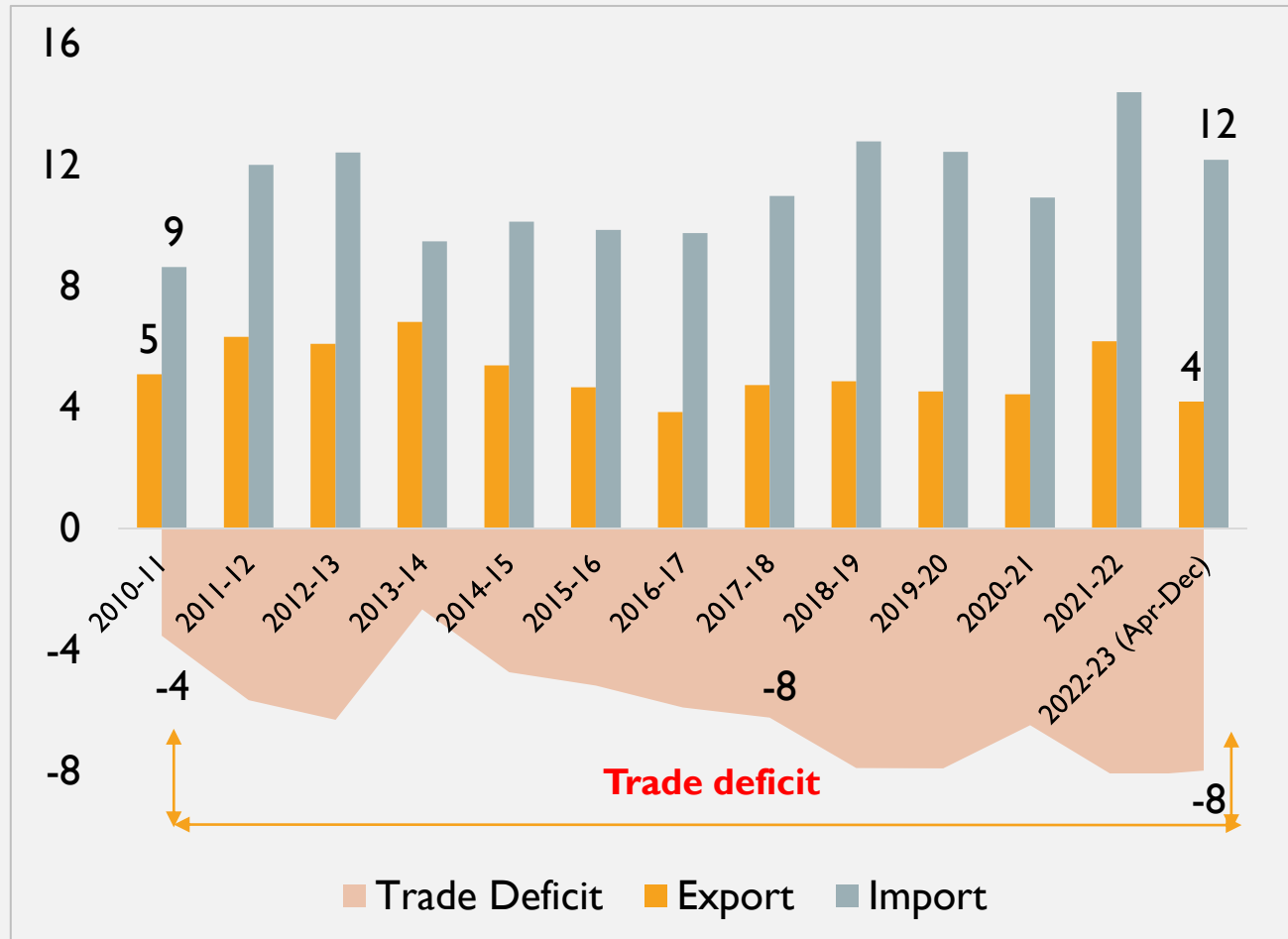
INDIA & JAPAN'S TOTAL TRADE



- Since India & Japan signed CEPA in 2011, the **total trade has shown a fluctuating pattern.**
- Due to the pandemic, total trade fell to a low of US\$15 billion in 2020–21.

However, it improved with a year-on-year growth rate of 34% and reached a peak of US\$21 billion in 2021–22.

INDIA'S TRADE BALANCE WITH JAPAN



- Over the last 10 years, India's trade deficit with Japan has been high and peaked in 2018 at US\$ 8 billion.
- However, during this time period (2010-2021), India's exports to Japan averaged US\$ 5 billion and imports averaged US\$ 11 billion.

The remaining presentation will focus on the following issues:

- What is India's export potential to Japan?
- How can India increase its market access into Japan? What are the tariff and non-tariff barriers which India faces in the Japanese market?
- How can Japan increase its FDI inflows to strengthen the trade-FDI linkage?
- How can new supply chains be forged for greater supply chain resilience?

INDIA'S TOP EXPORT PRODUCTS TO JAPAN

HS 2-digit	Product Name	Exports in 2017 (US\$ million)	Share in 2017 (%)	Exports in 2021 (US\$ million)	Share in 2021 (%)
27	Mineral fuels, mineral oils and pro	799	17.8	1044	17.2
29	Organic chemicals	411	9.1	707	11.6
84	Machinery	265	5.9	535	8.8
3	Fish and crustaceans, mollusks	434	9.6	445	7.3
71	Natural, cultured pearls; precious stones	279	6.2	430	7.1

INDIA'S TOP IMPORT PRODUCTS TO JAPAN

HS 2-digit	Product Name	Imports in 2017 (US\$ million)	Share in 2017 (%)	Imports in 2021 (US\$ million)	Share in 2021 (%)
84	Machinery	2575	24.6	2739	19.0
28	Inorganic chemicals	223	2.1	1621	11.2
85	Electrical machinery and equipment	1267	12.1	1338	9.3
74	Copper and articles	184	1.8	1257	8.7
39	Plastics and articles	789	7.5	1220	8.5
72	Iron and steel	1168	11.2	1168	8.1
90	Optical, photographic, cinematography	662	6.3	707	4.9

Source: ITC Trade Map

TOP 10 EXPORT PRODUCTS AT HS 6-DIGIT

HS 6-digit	India's Exports to Japan in 2021	Share in Total Exports to Japan (%)
271012	Petroleum oils; light oils and preparations	15.3
30617	Crustaceans; frozen, shrimps and prawns	5.8
710239	Diamonds; non-industrial	5.3
851712	Telephones for cellular networks	3.3
720230	Ferro-alloys; ferro-silico-manganese	2.7
841112	Turbo-jets; of a thrust exceeding 25kN	2.5
760110	Aluminium; unwrought, (not alloyed)	2.3
760120	Aluminium; unwrought, alloys	2.1
380893	Herbicides, anti-sprouting products	2.1
270400	Coke and semi-coke; of coal	1.8

Source: ITC Trade Map

TOP 10 IMPORT PRODUCTS AT HS 6-DIGIT

HS 6-digit	India's Import from Japan in 2021	Share in Total Imports from Japan (%)
284390	Inorganic or organic compounds	9.7
740311	Copper; refined, unwrought, cathode	7.6
390410	Vinyl chloride, other halogenated	3.9
870840	Vehicle parts; gear boxes and parts	2.1
870899	Vehicle parts and accessories	1.6
290243	Cyclic hydrocarbons; p-xylene	1.4
890800	Vessels and other floating structure	1.3
845710	Machining centres; for working meta	1.2
710239	Diamonds; non-industrial	1.0
847989	Machines and mechanical appliances	0.9

Source: ITC Trade Map

INCREASING INDIA'S MARKET ACCESS INTO JAPAN: AN APPROACH

- There is a large untapped export potential
- Addressing barriers to trade in items that have a large export potential can help India improve its market access into the Japan.
- Method for calculating trade potential for each item at a 6 digit level of disaggregation
- ***Trade Potential = Minimum of (Value of India's Exports to World, Value of Japan's Imports from World)***
 - ***India's Current Exports to Japan***
- Export potential is in those items which Japan is importing from the world but not from India. Within these items those items are selected which are globally competitive i.e. which have a Revealed Comparative Advantage
(RCA) > 1
- Data Sources: *World Integrated Trade Solutions (WITS), UNCTAD TRAINS Database on NTMs*

SUMMARY OF INDIA'S EXPORT POTENTIAL TO JAPAN IN 2021

(Values in US\$ billion)

No. of Product lines where potential exists (HS 6-digit)	Export Potential (Total)	Export Potential (Currently Traded Products)	Export Potential (New Products)
605	95.38	89.47 (451 Products)	5.91 (154 Products)

Source: ICRIER's Calculations

- Estimated export potential of US\$95.38 billion in 2021 indicates scope to tap this massive market.
- Out of 605 HS 6-digit product lines, **451 products that are currently exported account for 74.5% of the total export potential.**
- Therefore, it is necessary to analyse if tariff and non-tariff barriers hinder the growth of the existing Indian exports.

TARIFFS FACED BY INDIA UNDER CEPA WITH JAPAN

Tariff Range (%)	Number of Products	Share in Total Products Traded
0	1085	80%
>0 - 5	24	2%
>5 - 10	7	1%
>10 - 15	3	0.3%
>15 - 20	4	0.4%
>20 - 35	1	0.1%

Source: WITS; Year: 2021

- 80% of the items face zero tariff.
- Food preparation items, Leather Products such as footwear, clothing accessories (belt, bandoliers), Glass used in Vehicles, Sacks made of cotton face high tariff.
- However, these contribute only 0.8% share in total export potential to Japan in 2021.

INDIA'S MARKET ACCESS IN JAPAN

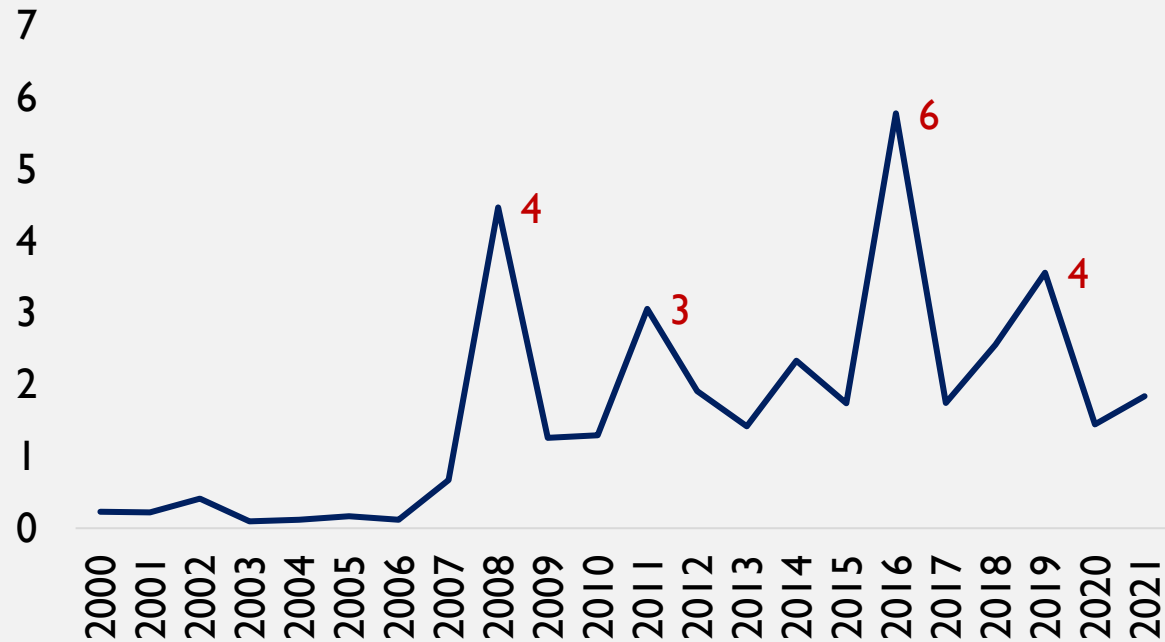
HS 6-digit	Product Description	Potential Export to Japan (US\$ million) in 2021	India's X Japan (US\$ million) in 2021	Japan's Tariff (CEPA) %	Non-Tariff Barrier/Regulation Title	Polluting Industry based on colour code
300490	Medicaments; consisting of mixed or unmixed products	14645	74	0	TBT: Pharmaceutical and Medical Device (PMD) Act	
271012	Petroleum oils - light oils and preparations	14142	929	NA	TBT: Civil Aeronautics Act, Act on the Quality Control of Gasoline and Other Fuels	
271019	Petroleum oils - not light oils and preparations	3387	1	NA	TBT: Ministerial Ordinance on Transportation and Storage of Dangerous Goods	
760110	Aluminium; unwrought	3361	142	0	NA	
711319	Jewellery; of precious metal	1763	18	0.2	NA	NA
100199	Cereals; wheat and meslin	1702	0	0	SPS: Food Safety	NA
760120	Aluminium; unwrought, alloys	1663	129	0	NA	
841112	Turbo-jets engines; of a thrust exceeding 25kN	1510	150	NA	TBT: Law for the Control of Export, Import, & Others of Specified Hazardous Wastes and Other Wastes, Act No. 108 of December 16, 1992	
610910	T-shirts, singlets, other vests; of cotton, knitted or crocheted	1268	16	0	TBT: On heading HS-6109: Labelling requirements and necessary standards for content of harmful substances	
030617	Crustaceans; frozen, shrimps and prawns	1113	351	0	SPS: Food labelling standards	

Share of Top 10 Products in Total Potential – 46.7%

INDIA-JAPAN FDI FLOWS

INDIA'S FDI INFLOWS FROM JAPAN

FDI equity infow from Japan to India (in US\$ Billion)



- Since 2008, Japan's FDI inflows to India increased, however, with fluctuating patterns and peaked at \$6 billion in 2016.
- As the 5th largest investor in 2021, Japan contributed cumulative FDI inflow of US\$36.4 billion in India.

Source: FDI Synopsis on Country Japan (As on 31.12.2021), Department for Promotion of Industry and Internal Trade (DPIIT); Foreign Direct Investment in India - Annual Issue 2021, Department for Promotion of Industry and Internal Trade (DPIIT)

INDIA'S INDUSTRY-WISE FDI INFLOWS FROM JAPAN (2000-2021)

Sector	Industry-wise FDI Equity Inflows (US\$ million)	Share in FDI equity inflows from Japan (%)
Automobile Industry	6,971	19
Services Sector*	5,340	15
Drugs and Pharmaceuticals	4,470	12
Metallurgical Industries	2,718	7
Telecommunications	2,286	6
Aggregate of Top 5 Sectors	21,785	60
Cumulative FDI Inflow	36,446	100

Source: FDI Synopsis on Country Japan (As on 31.12.2021), Department for Promotion of Industry and Internal Trade (DPIIT)

*Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

INCENTIVISING FDI: PLI SCHEME IN INDIA

14 Sectors covered under the PLI scheme

Mobile Manufacturing and Specified Electronic Components (Large Scale Electronics Manufacturing)

Active Pharmaceutical Ingredients (API)

Manufacturing of Medical Devices

Advance Chemistry Cell (ACC) Battery Manufacturing

Electronic/Technology Products

Automobile and Auto Components

Pharmaceuticals

Telecom Products

Textiles – Man made fibre & technical textiles

Food Processing (Ready to eat, fruit vegetable, marine products)

Solar PV manufacturing

White Goods (ACs & LEDs)

Steel Products

Drone & Drone components

The ***Production-Linked Incentive (PLI) scheme*** aims to provide incentives to companies on incremental sales over the base year, FY 2020-21, of products manufactured in domestic units

➤ ***Outlay of 1.97 Lakh Crores:***

A total of ***14 sectors*** are currently covered under the scheme with an outlay of ***INR 1.97 Lakh Crores.***

➤ ***4-6 percent incentive:***

The scheme shall extend an incentive of ***4 percent to 6 percent on incremental sales*** (over base year) of goods manufactured in India.

➤ ***Inviting foreign companies to invest:***

The objective of the scheme is ***also to invite foreign companies to set up units in India*** and encourage the local companies to set up or expand existing manufacturing units.

ITEMS WITH HIGH EXPORT POTENTIAL COVERED UNDER PLI SCHEME

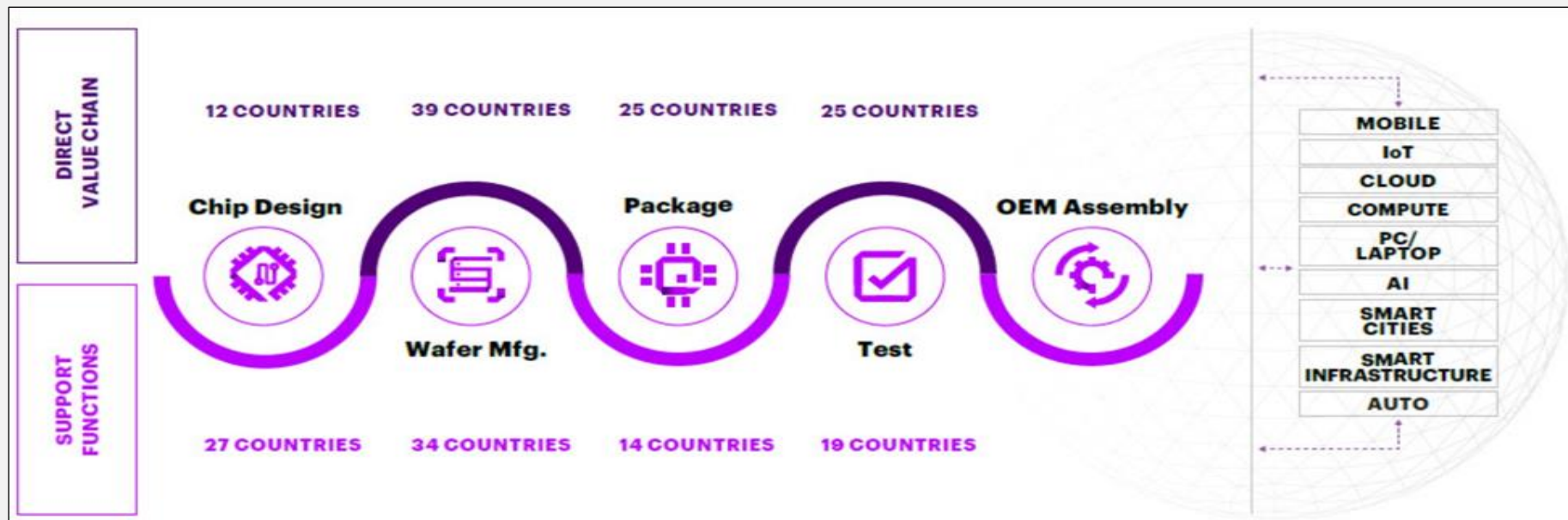
HS 6-digit	Product Description	Potential Export to Japan (US\$ million) 2021	India's X Japan (US\$ million) 2021
300490	Medicaments; consisting of mixed or unmixed products	14645	74
30617	Crustaceans; frozen, shrimps and prawns	1113	351.5
870322	Vehicles; with only spark-ignition internal combustion reciprocating piston engine	1079	2.8
610990	T-shirts, singlets and other vests; of textile materials other than cotton	645	4
848340	Gears and gearing; gear boxes and other speed changers, including torque converters	569	0.8
290919	Ethers; acyclic, and their halogenated, sulphonated, nitrated or nitrosated derivatives, other than diethyl ether	226	0.7

Source: WITS, Author's Calculations

SUPPLY CHAIN RESILIENCE

- Global Supply Chain Resilience is the new buzz word.
- *Supply Chain Resilience Initiative (SCRI)*, launched in April 2021 by the three Indo-Pacific economies – India, Japan and Australia.
- Even though India has opted out of RCEP for the moment & as of now India is not part of the trade pillar of Indo-pacific economic framework, it is part of the remaining three pillars- Supply Chains, Clean Economy, and Fair Economy.
- The need of the hour is to build on the FDI-trade linkages to strengthen and diversify supply chains

Number of Countries Participating in Various Phases of Semiconductor Manufacturing Activity



Source: *Globality and Complexity of the Semiconductor Ecosystem* https://www.accenture.com/_acnmedia/PDF-1/19/Accenture-Globality-and-Complexity-Semiconductor-POV.pdf

CONCLUDING REMARKS

- India needs to focus on understanding the regulatory requirements for items that have a huge export potential. Collaborations with Japan that would enhance capacity building in this area will help improve market access.
- FDI needs to be encouraged in areas that have export potential. The PLI incentive offers a good opportunity for Japanese Companies.
- India and Japan can engage in strengthening and diversifying supply chains by bringing in Indo-Pacific partners.
- More collaborations in the area of clean technology will be mutually beneficial.

THANK YOU