

# **India-Japan Economic Partnership: Potentials, Promises and Prospects**

Shamshad Ahmad Khan, PhD

Assistant Professor

Department of Humanities and Social Sciences

BITS Pilani University, Dubai Campus

And Visiting Research Fellow, PRI

- Background
- Beginning of 2000, India launches negotiation of FTAs, RTAs
- Departure from WTO centered multilateralism
- “Spaghetti Bowl” syndrome hits India
- Signs FTAs with ROK, Malaysia, Singapore and Japan
- With Japan, political objective to strengthen “strategic partnership”

# India-Japan JSG

- Constituted in 2005, gave report in 2006
- “Highly complementary in terms of factor endowments, capabilities, demographic profiles, convergences and specializations”
- Complementarities in India’s software prowess and *Japan’s strong capacity in IT hardware*
- “Enormous potential” between the two countries in “trade in services”

# India-Japan JSG

- Lack of human exchange between the two countries and
- **Suggested** governments to enhance “people-to-people exchanges” hoping that it will provide a basis for “stronger bilateral economic ties”
- **Suggested** conclusion of a Comprehensive Economic Partnership Agreement which will provide a “proper architecture for bilateral economic engagement” between the two countries
- **Hoped** “an EPA/CEPA will also serve as a building block for an even larger regional economic integration”

# IJCEPA

- Concluded in 2010, came into effect on Aug 1, 2011
- “The bilateral relationship will be enhanced by forging mutually beneficial economic partnership through liberalization and facilitation of trade and investment.”
- “Open new era of relationship”
- “Contribute to expanding trade and investment not only between the two parties but also the region”

# IJCEPA: Objectives

- To liberalise and facilitate trade in goods and services
- To increase investment opportunities and strengthen protection for investment and investment activities
- To ensure protection of intellectual property
- To promote cooperation for the effective enforcement of competition laws
- To improve business environment

# Political Expectations

- Both Indian and Japanese leaderships have attached high hopes to the bilateral economic partnership engagement.
- The bilateral agreement “will develop areas of **potential mutual complementarity**, further strengthen the bilateral economic relationship, and **promote economic development by increasing the cross-border flows of goods, persons, investment and services.**” ( **Kan-Monmohan joint Statement 2010**)

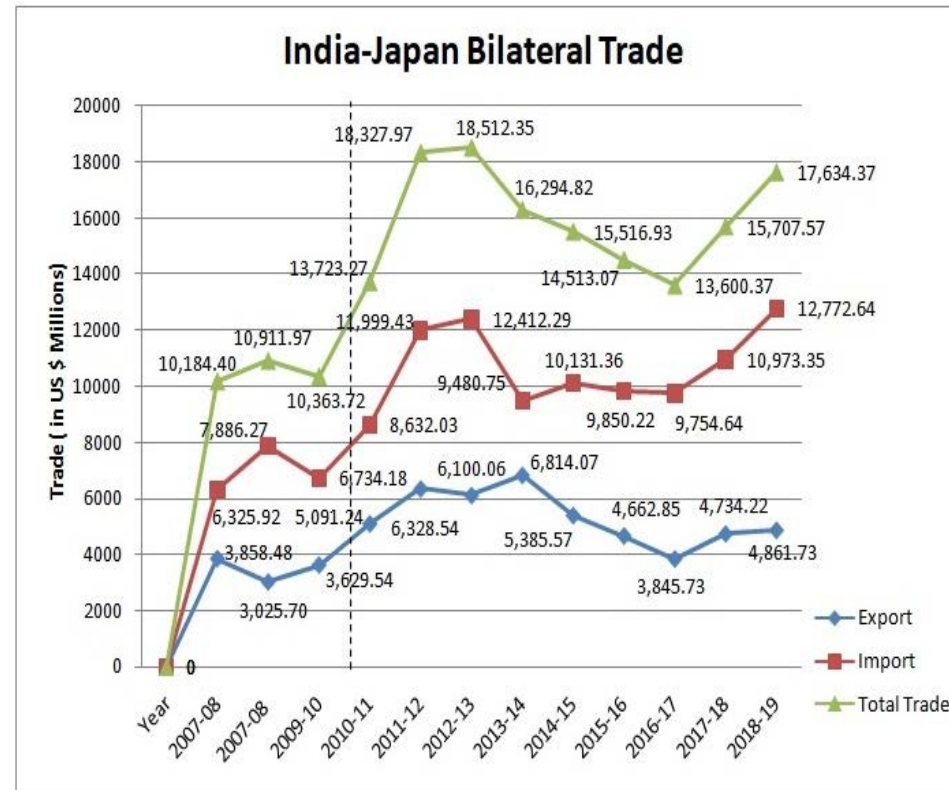
# Expectations by various sections

- “Tariff reduction will increase India’s export to Japan by 18.25 percent, while for Japan it will be only 4.65 percent.” (Simulation study by **Biswa Nath Bhattacharya and Kakali Mukhopadhyay,** )
- “Japan’s Sanitary and Phytosanitary Measures (SPS) standards are major barriers of Indian exports of poultry, meat, tuna, shrimp, marine products and fruits.” (**PRI Study by Nataraj**)
- Growth in trade can take place when “behind the border” constraints are eliminated (**Kaliappa Kalirajan and Swapan Bhattacharya**)



# Positive impacts

- The CEPA has certainly boosted bilateral trade which was well below potential.
- It touched USD 18.3 billion.
- After decelerating in next few years it has started accelerating again.



# Positive impacts

- As CEPA promises lots of protections and dividends to investors, surveys shows positive sentiments vis-à-vis India.
- India maintains second most favoured destination by Japanese investors in the medium term followed by China.
- The gap between the two, however, remains only **six** per cent.

Ranking			Country/Region	No. of Companies		Percentage Share(%)	
2018	←	2017		2018	2017	2018	2017
			(Total)	431	444		
1	—	1	China	225	203	52.2	45.7
2	—	2	India	199	195	46.2	43.9
3	↑ ↓	4	Thailand	160	153	37.1	34.5
4	—	3	Vietnam	146	169	33.9	38.1
5	—	5	Indonesia	131	147	30.4	33.1
6	—	6	US	124	116	28.8	26.1
7	—	7	Mexico	59	81	13.7	18.2
8	—	8	Philippines	43	47	10.0	10.6
9	↑	9	Myanmar	37	40	8.6	9.0
10	↑	12	Malaysia	36	26	8.4	5.9
11	↓	16	Germany	25	13	5.8	2.9
12	↓	10	Brazil	24	28	5.6	6.3
13	—	10	Korea	22	28	5.1	6.3
14	↓	14	Taiwan	19	17	4.4	3.8
15	↓	13	Russia	16	19	3.7	4.3
16	↑	14	Singapore	15	17	3.5	3.8
17	↓	20	Cambodia	13	9	3.0	2.0
18	↓	18	Australia	12	10	2.8	2.3
19	↑	17	Turkey	9	12	2.1	2.7
20	↑	23	Laos	7	5	1.6	1.1
20	—	32	France	7	2	1.6	0.5

# Positive impacts

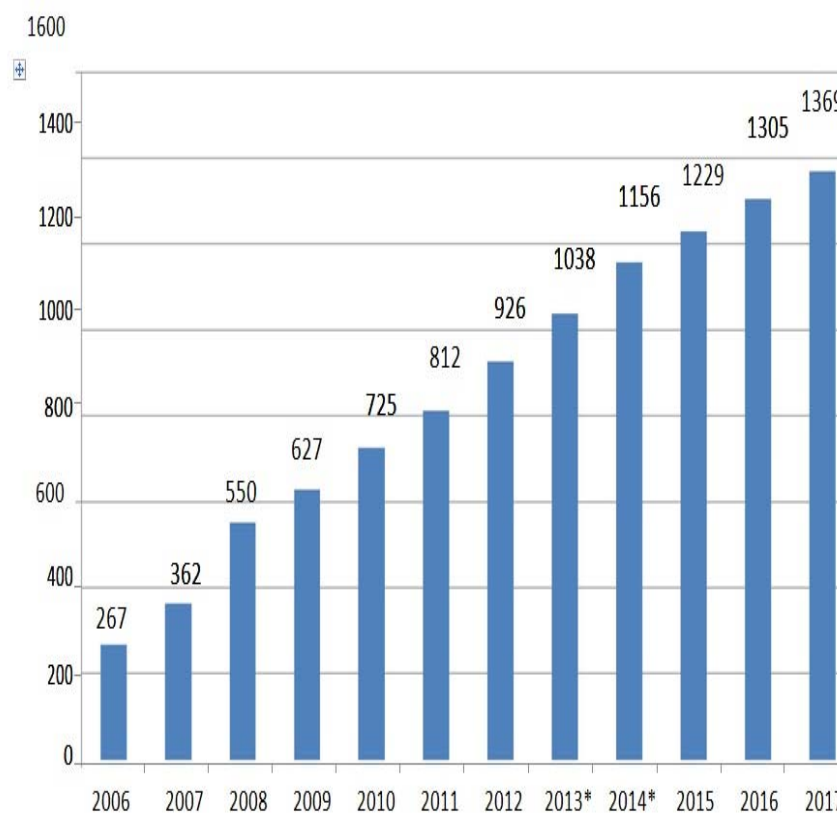
- Long term destination
- India becomes top most destination, surpassing China.
- Gap between India and China as a long term destination also remains high.
- It is more than 12 per cent.

Promising Countries/Regions for Business Development over the Long-term  
①FY2018 Results

Ranking			Country/Region (Total)	No. of Companies		Percentage Share(%)	
2018	←	2017		2018	2017	2018	2017
1	□	1	India	205	214	58.6	63.5
2	□	2	China	164	146	46.9	43.3
3	□	3	Vietnam	115	115	32.9	34.1
3	↑	4	Indonesia	115	109	32.9	32.3
5	□	5	Thailand	105	80	30.0	23.7
6	□	6	US	76	78	21.7	23.1
7	□	7	Myanmar	41	48	11.7	14.2
7	↑	8	Mexico	41	45	11.7	13.4
7	□	9	Brazil	41	43	11.7	12.8
10	□	10	Philippines	30	33	8.6	9.8

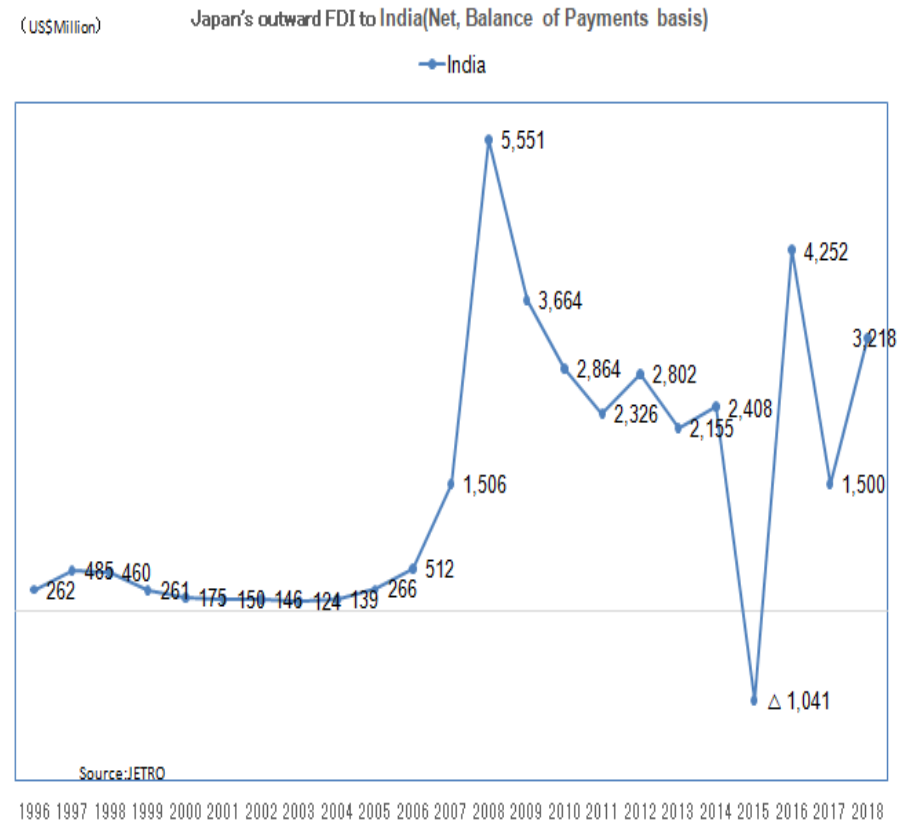
# Positive impacts

- The JBIC survey seems consistent with the actual investment and number of growing presence of Japanese companies in India.



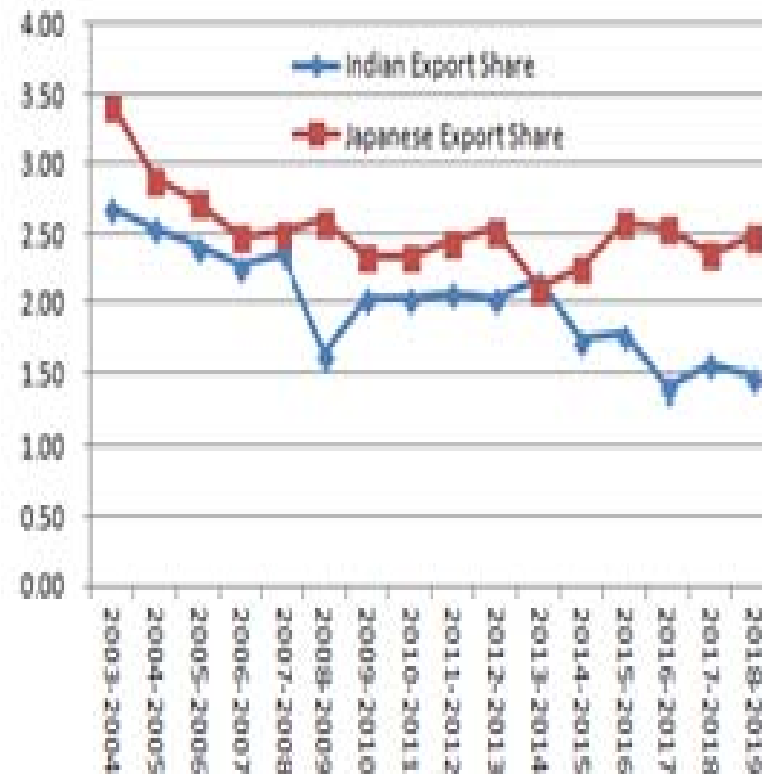
# Mixed Impact

- Despite the fluctuation in Japanese FDI towards India, Japan continues to maintain a top investor position of FDI in India.
- But still India would have to compete with ASEAN countries in attracting Japanese FDI.



# Negative impacts

- “It has advantaged Tokyo in India-Japan economic pact” (Financial Express)
- Japanese exports to India grew by 40.96% while India’s exports to Japan managed to grow only 18.39%.
- A year before CEPA Indian exports to Japan had grown by 43% and imports had grown by only 28%.



# Concerns at political level

- India's trade share in bilateral trade remains low.
- Both Anan Sharma and Nirmala Sitharaman (Minister of Trade and Commerce in UPA and NDA govts) have attributed to "NTBs" as a reason for India's low trade share.
- "Projected gains for India... have not materialised to the extent expected." It also points towards NTBs being applied by Japan.
- "Access to the Japanese market remains constrained by NTBs. (Foreign Trade Policy Statement 2015,)"

# Why there is negative optimism?

Source: VS Saraswat/NITI Ayog

Computed by author

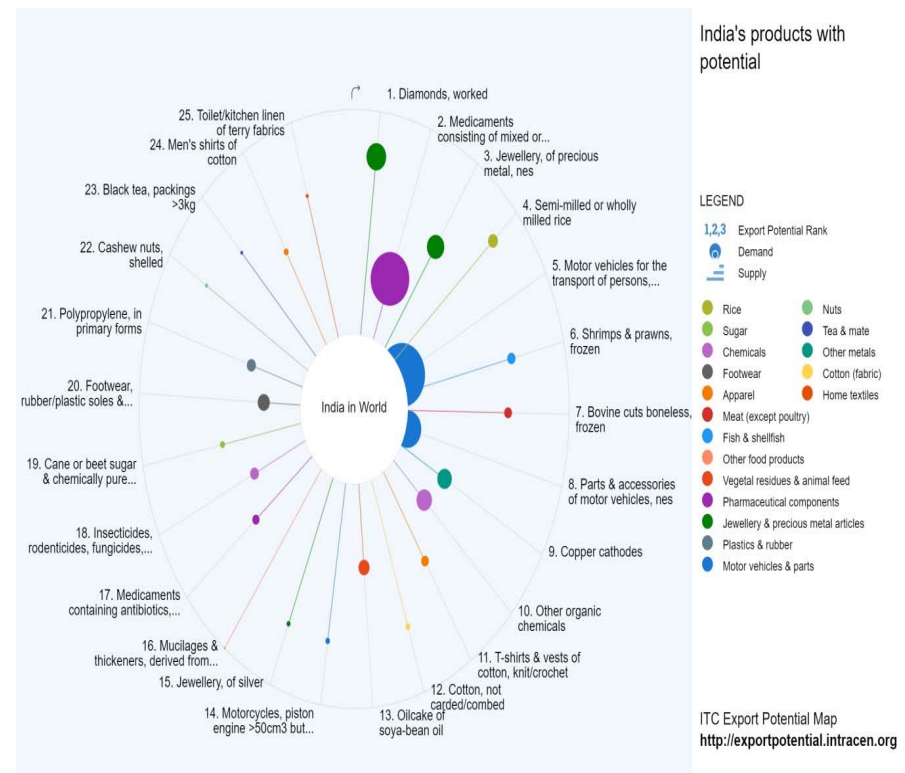


Serial No.	Partner Countries	Years of Enforcement	India's Exports FY 2018-19	India's Import FY 2018-19	Total Trade FY 2018-19	Trade Balance FY 2018-19
1.	India-Nepal	1999	7,763.60	503.51	8,267.11	+
2.	India-Sri Lanka	2000	4,708.50	1,472.83	6,181.33	+
3.	India-Afghanistan	2003	715.44	435.44	1,150.89	+
4.	India-Singapore	2005	11,571.14	16,281.64	27,852.78	-
5.	India-Bhutan	2006	657.33	369.53	1,026.86	+
6.	India-Chile	2007	989.80	1,237.55	2,227.35	-
7.	India-Finland	2009	256.12	1,124.08	1,380.20	-
8.	India-Korea	2010	4,705.07	16,758.76	21,463.83	-
9.	India-Japan	2011	4861.73	12772.64	17634.37	-
10.	India-Malaysia	2011	6,435.25	10,818.60	17,253.85	-



# How will it impact on forthcoming FTAs/RTAs

- Various sections including NITI Ayog and PHD Chambers of Commerce in India are demanding to review the existing FTAs...
- Give pause to RCEP
- Promote export of high value products



# Conclusion and Suggestions

- The analysis above suggests that economic and trade ties between the two countries have deepened.
- But the CEPA has yet to achieve complementarities as was envisioned by the political leadership.
- Moreover, as a result of CEPA, the trade balance has grown in Japan's favour.
- This has become cause of concerns in India.

- Keeping these concerns in mind, both the governments should find ways to make the CEPA much more relevant.
- One of the options could be to activate various sub-committees that the CEPA document mentions.
- In addition to this form a select core group which should analyse shortcomings of CEPA and suggest remedial measures to both the governments.

- Give a rethinking of “inconclusive” parts of the CEPA signed in 2010
- Reconsider the entry of Indian careworkers (even though 3yrs stipulation in IJCEPA has elapsed)
- A study finds that a lot of complementarity in India and Japan service sectors
- Japan should pay attention to India’s youth bulge and allow access to them as it is “opening up”
- **The gain by India through trade in services will complement the loss in trade in goods**

- SPS standards and other TBT remain perceived barriers checking the flow of entry of Indian goods in Japan
- Here technology could be a great enabler.
- Japan should share the technologies to raise SPS standards of Indian products.

- Japan has acknowledged that “a strong, prosperous and dynamic India is in the interest of Japan and vice versa.”
- Both the governments have undertaken various measures to upgrade their economic relations.
- However, there are vast potential and opportunities, some of them cited above, which remain untapped.
- Collaboration in these fields between the two countries will certainly impart momentum to their economic growth and prosperity.

# Thank you for attending the seminar

- Special thanks to many people who helped me in different ways in this research project
- Mr. Kohei Shiino
- Prof. Makoto Kojima
- Dr. Norio Kondo
- Ambassador Arjun Asrani
- METI, JBIC, JETRO staff
- Shashank Patel and Muqbil Ahmar