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OBSERVER RESEARCH FOUNDATION

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About the Authors

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List of Abbreviations

APEDA	Agricultural and Processed Food Products Export Development Authority
BAU	Business As Usual
BRCA	Bilateral Revealed Comparative Advantage
CEPA	Comprehensive Economic Partnership Agreement
CMIE	Centre for Monitoring Indian Economy
COMTRADE	Commodity Trade
CRS	Congressional Research Service
DMIC	Delhi–Mumbai Industrial Corridor
DOTS	Direction of Trade Statistics
ESI	Export Specialization Index
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GAAR	General Anti Avoidance Rule
GDP	Gross Domestic Product (GDP)
GNI	Gross National Income
IMF	International Monetary Fund
IRCA	International Revealed Comparative Advantage
JBIC	Japan Bank for International Co-operation
JCCII	Japan Chamber of Commerce and Industry in India
NTB	Non-tariff Barriers
ODA	Official Development Assistance

PPP	Purchasing Power Parity
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
WDI	World Development Indicators
WITS	World Integrated Trade Solution
WTO	World Trade Organization

India-Japan Economic Partnership Agreement: Gains and Future Prospects

Abstract

Economic relations between India and Japan have improved in recent years. The signing in February 2011 of the India-Japan Comprehensive Economic Partnership Agreement (CEPA) has further enhanced bilateral trade and investment relations between the two Asian giants. This paper attempts to analyse the initial impact of the CEPA on both trade and investment relations and other areas of cooperation. Even though it is too early to make a thorough impact assessment, the study seeks to bring out some facts related to the effectiveness of the agreement.

The study finds that the reduction of tariff barriers as a result of CEPA has helped boost India's exports in various sectors such as pharmaceuticals, agricultural products, and textiles. For Japan, meanwhile, the benefits have accrued in the area of automobiles and high value-added consumer goods. The paper also explores CEPA's provisions designed to address existing non-tariff barriers in both the countries, and their likely impact on trade. The agreement has paved the way for increased Japanese investment in India as CEPA clearly defines rules about investment, taxation, and social security. Investments in infrastructure projects by Japan in India have always been high although, historically, the process of obtaining clearance for these projects has proved difficult and cumbersome.

Key words: Regional trading agreements, Bilateral trade, Asia

JEL Classification: F15, F13, F1, F21

1.0 Introduction

The globalisation process has facilitated the world economies in sharing the fruits of free trade, migration of labour, capital flows, and transfer of technology. The importance of trade has been explored under the endogenous growth theory where it has emerged as one of the peripheral factors for economic growth along with other traditional inputs. In order to strengthen international trade, a plethora of studies have empirically investigated various trade theories over time and designed policies accordingly. The invention of modern trade theory has highlighted the role of comparative advantage (inter-industry trade) as well as production differentiation (intra-industry trade) as a basis for pattern of trade. In the recent past, world economies are giving due importance to economic partnerships across nations. India has moved towards institutionalising economic partnership with a few Asian countries. Examples include: India-Singapore Comprehensive Economic Cooperation Agreement (CECA) in 2005; India-Korea CEPA in 2010; and India-Malaysia CECA in 2011.¹

The Comprehensive Economic Partnership Agreement (CEPA) between India and Japan was signed on 16th February, 2011 and came into force from 1st August of the same year. Apart from accelerating business activities, the deal aimed to eliminate tariffs on 90 percent of Japanese exports to India, such as auto parts and electric appliances, and 97 percent of imports from India, including agricultural and fisheries products, until 2021. Since the introduction of CEPA, India-Japan merchandise trade has increased by 38 percent, with total bilateral trade expected to reach US\$24 billion by March 2013.² Keeping in view the agreement, Mukhopadhyay and Bhattacharyay (2011) evaluated the

economy-wide impact of the trade integration between Japan and India using Global Trade Analysis Project (GTAP) analysis. It was found that the output will increase marginally for both India and Japan in 2020 after tariff reduction compared to Business As Usual (BAU). The results expected a marginal export growth, a fair amount of trade creation and improvement in the welfare of both the countries by 2020 with the successful implementation of CEPA.³

The agreement had two major concerns, namely: the infrastructure in India, and non-tariff barriers in Japan.

On the infrastructure front, the two countries agreed to collaborate on the huge, US \$90-billion Delhi–Mumbai Industrial Corridor (DMIC) project in 2006. The key agenda of the DMIC project involves the development of nine industrial zones; a high-speed freight line; three ports; six airports; a six-lane intersection-free expressway; and a 4,000-megawatt power plant. The project agreement appears highly promising in the environment of the new manufacturing policy whereby India is targeting to increase the share of manufacturing in GDP to 25 percent within a decade, potentially creating 100 million jobs.

There are; however, some issues that serve as a hindrance to the full-fledged success of the project. These are:

- Unclear decisionmaking and ownership of operation due to a lack of consensus among many stakeholders, such as the DMIC Development Corporation, and Central and state governments in India
- Unsatisfactory business plans proposed by the Indian delegation to Japanese promoters.

At the same time, the infrastructure deficit in India remains a serious issue for Japanese investors. According to the Japan External Trade Organization's FY 2011 survey, the top business problems in India are power shortages or blackouts, and inadequate logistics infrastructure (identified, respectively, as 71.6 percent and 64.8 percent by firms covered in the survey). The Indian government itself has recognised the deficit, estimating that US\$1 trillion of investments in infrastructure are required in order to achieve a nine-percent growth rate.

For its part, India has also expressed its own concerns about the agreement. New Delhi has urged Japan to remove all non-tariff barriers so that real benefits envisaged under the CEPA are realised, particularly those that would be earned from the Japanese pharmaceutical market. It is mutually acknowledged that Japan's high demand for generic medicines can be potentially fulfilled by India, providing a win-win situation for both countries.

On April 30, 2012, the first India–Japan Ministerial-level Economic Dialogue was held in pursuit of the same objectives as stated in CEPA. The dialogue showed that today the relationship between the two nations has become more equal—both are allowing for mutual concessions and compromises to help realise the expected gains.⁴ Both countries agree that the success of CEPA depends upon multiple dimensions. The identification of potential trade and investment areas between the two countries puts forth a major policy agenda before them for realising the expected gains of the pact.

Japan and India are two leading economies in Asia. According to the World Development Indicators 2012, Japan's Gross National Income

(GNI, estimated based on purchasing power parity) for the year 2010 was \$4.43 trillion, while its GNI (PPP) per capita stood at \$34,790. Japan's GDP grew at 5.3 percent in 2009-10 after registering an average growth rate of 0.9 percent during the period 2000-10. Comparative figures for India stood at \$4.17 trillion, \$3,560, 8.3 percent and 8.0 percent respectively.

The Japanese economy is highly advanced, with the services sector accounting for 71 percent of the GDP in 2009. The industrial sector, once the engine of Japan's growth, now contributes only 28 percent to the GDP while the agricultural sector accounts for one percent. Similarly, the services sector is the largest contributor to India's GDP, accounting for 55 percent while agriculture and industry contribute 18 percent and 27 percent, respectively.

India and Japan, therefore, share a similar structure especially with regard to their reliance on the services sector. In recent years, the two countries have strengthened their bilateral ties through new initiatives and programmes, ranging from economic and cultural linkages to defence and security tie-ups. The year 2007 was also officially celebrated as the Year of Friendship between the two countries. Japan gives 30 percent of its official development assistance (ODA) to India and remained committed even during the period of the global economic downturn. For example, Japan has granted almost \$4 billion for the Delhi-Mumbai Industrial Corridor (DMIC).

The economic part of the relationship, however, remains far below potential. Japan, with a population of around 127 million, has slipped behind China to become Asia's second-biggest economy. According to WDI, its gross domestic product (GDP) totalled \$5.5 trillion in 2010. On

the contrary, the GDP of India, the third-largest economy in Asia, totalled \$1.7 trillion in the same year. It has the world's second-biggest population at more than 1 billion people.

Japan and India agreed in 2007 to increase two-way trade flows to \$20 billion by 2010. However, the total fell short of the target, reaching only 1290 billion yen (around \$15.85 billion). For 2011-12, India-Japan bilateral trade stood at \$18.31 billion, representing an increase of 32 percent over the previous year. The comprehensive trade pact between India and Japan aims to nearly double bilateral trade to \$25 billion by 2014. Japan exports mainly machinery, electronics, iron and steel products to India, while India exports mainly oil, iron ore and chemical products to Japan. Japan is India's 12th-biggest trading partner, while India is Japan's 27th-biggest trade partner. Bilateral trade and investment flows between the two countries have been short of spectacular because Japanese companies have focused on business with China and Southeast Asia. About 870 Japanese firms are operating in India and Japan's direct investments in India totaled some 241 billion yen in 2010 (543 billion Yen in 2008), according to Japanese government data.

In the context of the global recovery and the two countries trying to increase trade and exports, a paper on Indo-Japanese trade relations and also analysis of services, investment and other areas of cooperation in the backdrop of the signing of the Economic Partnership Agreement (EPA) would be relevant to highlight the problems faced by the two countries and to suggest measures to boost trade and investment between them. For instance, several industries in Japan are now in the sunset phase because the current international economic environment has rendered them non-competitive. Exports from the manufacturing

sector in Japan have declined in recent years. Such industries could survive if they were relocated and, in that respect, India is a first-class option. Consumer durables and food processing industries, for instance, could be relocated to India where skilled labour is available at a reasonable cost. Such industries will not only be able to take advantage of India's huge domestic market but could also use India as a base to export to other countries, besides catering to Japan's own domestic market. For many countries in the region, enhanced trade and investment relations between Japan and India would act as a counterbalance to the growing influence of China. Stronger economic ties with Japan would also help India establish its presence in East Asia and get market access for its exports through Japan's bilateral agreements with other countries in the region. On this front, a comprehensive study analysing Indo-Japan trade and investment relations would act as a useful reference on all matters related to trade in goods, investments, and other mutual cooperation issues between India and Japan.

An important factor affecting Indo-Japan trade is the tariff and non-tariff barriers imposed by both countries. Japan has placed import prohibitions and quantitative restrictions on imports from India, for example, on fish and silk items. Japan's Sanitary and Phytosanitary Measures (SPS) are major barriers to Indian exports of poultry, meat, tuna, shrimp and other marine products, and fruits like mangoes and grapes. Manufacturers of these products feel that they are rendered uncompetitive and denied market access. This issue highlights the need for sharing and facilitating exchange of technology under the agreement to promote Indian exports to Japan. Similarly, Japanese exports to India also face high tariffs which act as a major impediment to exports from Japan. Therefore, analysing the tariff and non-tariff barriers to trade in

both the countries would be mutually beneficial to enhance trade relations.

2.0 Objectives of the Study

This study attempts to document the existing levels and patterns of trade between India and Japan. It also analyses the potential for increase in bilateral trade in goods and services, along with an assessment of other areas of economic cooperation such as enhancing investment relations between the two countries.

This study does not aim to prove the effectiveness of CEPA but rather tries to explore the most competitive sectors with the help of revealed comparative advantage indices, export dynamism, export specialisation, etc. The competitive sectors can be utilised for strengthening the bilateral trade and investment, and consequently to realise the fruits of CEPA. The following is an overview of the study.

Trade in Goods

- It documents bilateral trade in goods at HS 2, HS 4 and HS 6 digit levels;
- Computes revealed comparative advantage (international as well as bilateral) of India's and Japan's exports;
- Identifies complementary sectors and the possible impact of the agreement on various sectors: losers versus gainers;
- Documents existing levels of import tariffs and non-tariff barriers, i.e., analyses the NTBs and SPS measures faced by Indian exporters in Japan and vice versa;

- Identifies the possibilities of enhanced trade in agricultural goods and processed foods.

Other Areas of Economic Cooperation (SMEs)

- It documents the relative strengths of India and Japan for trade in services, including the identification of imports and exports of services;
- Identifies complementary sectors of bilateral trade and latent potential for trade;
- Identifies other areas of economic cooperation;
- Steps required to encourage bilateral investment flows, with special emphasis on Small and Medium Enterprises (SMEs) and the service sector.

2.1 Methodology

This study is largely based on secondary sources. Whenever required, consultations were also held with trade and commerce ministry officials from both countries in order to get a better understanding of the trade issues between them. The major source of data for analysis is the Commodity Trade (COMTRADE) database of the United Nations. Data for India and Japan have been extracted from the (WITS) World Integrated Trade Solution interface of the World Bank. The study covers the time period of nine years, from 2000 to 2008. The analysis is based on HS nomenclature 1996 at 2, 4, and 6 digits classification.

Other data sources that have been used in the study include the following:

- Direction of Trade Statistics (DOTS), IMF;

- Congressional Research Service (CRS) Reports published by the US Government;
- India Trades, the Centre for Monitoring Indian Economy (CMIE);
- World Development Indicators, the World Bank;
- Foreign Trade Data, the Economist Intelligence Unit;
- Trade Policy Review of India and Japan by WTO.

The paper is organised as follows:

- Section 3: A brief overview of the macro economic situation in Japan and India.
- Section 3.1: Explains India-Japan trade relations.
- Section 4: A discussion of the international competitiveness of Japan and India, including an analysis of both countries' revealed comparative advantage in the world market and competitiveness in each other's market through bilateral competitiveness. This section also focuses on the concept of export dynamism and computes an export specialisation index for both India and Japan to understand the intensity of intra-industry trade.
- Section 5: Focuses on the barriers to trade between the two countries by detailing SPS and Trade restrictiveness of domestic technical regulations (TBT) Technical Barriers to Trade (measures imposed on Indian exports, testing and labeling requirements etc).
- Section 6: Highlights trade in services in both the countries along with explaining the declining Japanese investment in India and constraints to further Japanese investment.
- Section 7: Presents the gains from CEPA and other areas of mutual cooperation.
- Section 8: Conclusion.

3.0 India-Japan Trade Relations

Bilateral engagement in trade has so far remained on a low key and the full potential of trade is yet to be tapped. Table 1 shows that Japan has over the years enjoyed a favourable balance of trade with India, except in the years 2000, 2001, and 2002.

Table 1: India-Japan Trade (US\$Billion)

Year	Japan's imports from India	Japan's exports to India	Total Trade
2000	2.64	2.49	5.12
2001	2.22	1.92	4.14
2002	2.09	1.87	3.96
2003	2.18	2.39	4.57
2004	2.61	3.04	5.66
2005	3.19	3.52	6.71
2006	4.05	4.45	8.51
2007	4.17	6.16	10.33
2008	5.26	7.90	13.15
2009	3.73	6.34	10.07
2010	5.67	9.04	14.72
2011	6.81	11.08	17.89

Source: UNCOMTRADE

At the same time, there have been some signs of growth. The volume of the two-way trade has steadily increased over the years, reaching a peak of over \$17.9 billion in 2011. The trend towards growth is noticeable after 2004. Particularly, Japan imported \$ 544 million-worth of petrochemical products from India in 2005; the figure rose to \$1,130.4 million in 2006. Similarly, Japan's exports in machines, transport equipment and electronics registered substantial increases. Even so, considering the potential of the two-way trade, the present volume still remains small and pales in significance when compared to Japan-China bilateral trade, which is twenty times higher than that with India. Another point that deserves to be noted is that although the volume of India's global trade has rapidly grown, the share of Japan in that trade has been decreasing.

This pattern indicates that the potential of the Japanese market has not been fully utilised. There has not been any significant change in the composition of trade, and the major Indian exports to Japan continue to be gems and jewellery, marine products, minerals, iron ore and textiles. Japan's exports to India, meanwhile, have been centered on machinery, transport equipment, electronic goods, chemicals, and metal products. Thus, Japan's exports to India consist of products that are on the higher side of the value chain, while India's exports to Japan cover only the lower levels of the value ladder. Any significant breakthrough in bilateral trade can occur only if India is able to diversify its exports.

Interestingly, a few sectors—for example, machinery, nuclear reactors, iron and steel, and organic chemicals—are characterised for intra-industry trade and may be the result of product differentiation as mentioned in the modern trade theory.

The trends in India's and Japan's top 10 exports to each other are quite revealing (See Tables 2 and 3). In recent times, there have been no changes in the traditional structure in which major Indian exports comprised of commodities such as gems, marine products, and iron ore. This implies that diversification of the trade structure remains a formidable challenge. Manufactured goods such as automobile components still constitute a large proportion of India's imports from Japan. Japan and India should study the sectors in which India has expanded its trade volume with other countries, and consider if there is any scope for increasing the trade value in, for instance, IT, textiles and fiber products, and pharmaceutical products. Thus, the challenge is to diversify the trade structure.

Table 2: Japan's Top 10 Exports to India (US\$Million)

2005		
Product	Product Name	Value
84	Nuclear reactors, boilers, mchy	1099.5
85	Electrical mchy equip parts thereof	410.8
87	Vehicles o/trailw/tramw roll-stock	405.1
72	Iron and steel.	247.4
90	Optical, photo, cine, meas, checkin	217.9
29	Organic chemicals.	217.2
39	Plastics and articles thereof.	125.3
73	Articles of iron or steel.	115.3
37	Photographic or cinematographic goods	75.1
27	Mineral fuels, oils & product of th	74.6
2008		
Product	Product Name	Value
84	Nuclear reactors, boilers, mchy	2662.0
85	Electrical mchy equip parts thereof	1087.2
72	Iron and steel.	737.8
27	Mineral fuels, oils & product of th	590.8
87	Vehicles o/trailw/tramw roll-stock	540.8
90	Optical, photo, cine, meas, checkin	395.5
73	Articles of iron or steel.	278.1
29	Organic chemicals.	270.2
39	Plastics and articles thereof.	207.4
82	Tool, implement, cutlery, spoon	130.1
2011		
Product	Product Name	Value
84	Machinery, nuclear reactors, boilers, etc	3863.9
85	Electrical, electronic equipment	1387.6
72	Iron and steel	1298.1
87	Vehicles other than railway, tramway	829.1
90	Optical, photo, technical, medical, etc.	590.2
99	Commodities not elsewhere specified	484.6
73	Articles of iron or steel	396.5
29	Organic chemicals	331.5
39	Plastics and articles thereof	318.5
40	Rubber and articles thereof	297.0

Source: UNCOMTRADE

Table 3: India's Top 10 Exports to Japan (US\$Million)

2005		
Product	Product Name	Value
71	Natural/cultured pearls, prec stone	485.9
26	Ores, slag and ash.	383.6
3	Fish & crustacean, mollusc& other	256.8
27	Mineral fuels, oils & product of th	212.4
29	Organic chemicals.	105.1
23	Residues & waste from the food indu	99.4
62	Art of apparel & clothing accessories	93.4
84	Nuclear reactors, boilers, mchy	70.3
52	Cotton.	68.5
72	Iron and steel.	61.6
2008		
Product	Product Name	Value
27	Mineral fuels, oils & product of th	700.0
71	Natural/cultured pearls, prec stone	391.8
23	Residues & waste from food indu	368.0
26	Ores, slag and ash.	313.2
72	Iron and steel.	308.5
3	Fish & crustacean, mollusc & other	211.5
29	Organic chemicals.	165.9
62	Art of apparel & clothing accessories	113.5
84	Nuclear reactors, boilers, mchy	103.1
52	Cotton.	71.0
2010		
Product	Product Name	Value
27	Mineral fuels, oils, distillation products	1959.9
72	Iron and steel	384.3
23	Residues, wastes food industry, animal fodder	326.8
03	Fish, crustaceans, molluscs & other	300.0
71	Pearls, precious stones, metals, coins, etc	273.4
26	Ores, slag and ash	249.1
29	Organic chemicals	175.3
62	Articles of apparel, accessories, etc.	111.0
84	Machinery, nuclear reactors, boilers, etc	98.1
38	Miscellaneous chemical products	62.6

Source: UNCOMTRADE

In an attempt to boost exports of organic products to Japan, the Agricultural and Processed Food Products Export Development Authority (APEDA) has suggested that the Japanese government accord equal status to Indian certification agencies. This step will go a long way in reducing the cost of these products in the Japanese market. At present, the prices of products exported to Japan are significantly higher than those exported to other countries. This is because the cost of certification by Japanese agencies is much higher than that charged by Indian agencies. Once Indian agencies get the equivalence of standards and certification with their Japanese counterparts, the former, accredited by APEDA, can certify organic products. Organic products that are exported by India include basmati rice, honey, spices, tea, garments, and some dry fruits.

Even when we examine the trade figures of Japan and India separately, we find that Japan has always maintained a trade surplus with exports in most years being higher than imports. This is a rare case as most countries generally suffer from trade deficit. Moreover, Japan has always been integrated with the world economy. In 1980, the degree of openness to trade in Japan stood at 27.8 percent. It declined subsequently and increased again post-2005 to stand at its highest of 35.2 percent in 2008, but declined again to 29.2 in 2010 (See Table 4).

Japan had a trade deficit in 1980 as a result of the economic disturbance following the oil crisis. Since 2008, a substantial decline has been observed in the trade balance as its value stood at a highest level of \$74 billion in 2007 and realised less than 10 in 2008. This can be largely attributed to the global financial crisis of 2007-08.

Table 4: Japan's Foreign Trade (US\$ Billion)

Year	Exports	Imports	Trade Balance	Trade*
1980	145.90	156.22	-10.32	27.79
1991	349.24	293.62	55.62	18.18
2001	434.66	408.04	26.61	20.26
2005	654.36	590.00	64.36	27.22
2006	704.56	649.81	54.75	31.09
2007	773.11	699.45	73.66	33.80
2008	858.85	849.44	9.41	35.23
2009	639.24	620.79	18.45	25.02
2010	833.70	768.05	65.66	29.18

Source: WDI 2012, Note: Exports, Imports and GDP all are in current prices, * percent of GDP

In contrast to Japan, India's export volume is much less; India has always suffered from trade deficits. In fact the gap between exports and imports is high and it is only post-2000 that India managed to increase its degree of openness to trade. Foreign trade as a percentage of GDP has increased from a mere 17 percent in 1991 to nearly 55 percent today. This also indicates that the economic reforms in India have been successful in integrating the Indian economy with the global economy (See Table 5).

For the last couple of years, the trade balance of India has deteriorated significantly. This can be interpreted as an outcome of the increase in domestic demand due to expansionary fiscal policy amid the global economic recession and sovereign debt crisis.

Table 5: India's Foreign Trade (US\$ Billion)

Year	Exports	Imports	Trade Balance	Trade*
1980	11.44	17.23	-5.79	15.12
1991	22.94	22.94	0.00	16.69
2001	60.96	65.22	-4.25	25.63
2005	160.84	183.74	-22.90	41.31
2006	199.97	229.96	-29.98	45.30
2007	253.08	302.80	-49.73	44.88
2008	288.90	350.93	-62.02	52.27
2009	274.02	347.14	-73.12	45.64
2010	383.54	453.45	-69.90	49.69
2011	455.27	551.61	-96.34	54.49

Source: WDI 2012, Note: Exports, Imports and GDP all are in current prices, * percent of GDP

Another interesting aspect of external trade of India and Japan is that both countries export a few similar commodities to the world, reflecting the robustness of such sectors in each country. Japan's major items of export to the world include heavy engineering goods, nuclear reactors, iron and steel, and light engineering goods. Though Japan is at the high end of technology and has some of the world's best brands in consumer electronic items, they don't feature in the top 10 exports of Japan to the world (See Table 6).

Since India undertook its economic reform measures with emphasis on boosting its exports and increasing its share in world exports, there has been a gradual change in the structure of the country's export basket. While the country used to be famous for its traditional commodities like leather, tea and jute goods, it has since made substantial progress to become one of the leading exporters of more varied commodities like electronics and light engineering goods, as well as textiles (See Table 7).

Table 6: Japan's Top 10 Exports to World (US\$Million)

2005		
Product	Product Name	Value
87	Vehicles o/trailw/tramw roll-stock	125125.8
85	Electrical mchy equip parts thereof	122272.0
84	Nuclear reactors, boilers, mchy	119492.6
90	Optical, photo, cine, meas, checkin	35915.8
72	Iron and steel.	24366.3
29	Organic chemicals.	17853.0
39	Plastics and articles thereof.	17442.2
89	Ships, boats and floating structure	11802.1
73	Articles of iron or steel.	9411.5
40	Rubber and articles thereof.	8574.6
2008		
Product	Product Name	Value
87	Vehicles o/trailw/tramw roll-stock	172202.9
84	Nuclear reactors, boilers, mchy	151595.0
85	Electrical mchy equip parts thereof	138092.1
72	Iron and steel.	39198.7
90	Optical, photo, cine, meas, checkin	34316.7
39	Plastics and articles thereof.	23888.7
29	Organic chemicals.	20308.5
89	Ships, boats and floating structure	19824.1
27	Mineral fuels, oils & product of th	18776.4
73	Articles of iron or steel.	13727.3
2011		
Product	Product Name	Value
84	Machinery, nuclear reactors, boilers, etc	171292.2
87	Vehicles other than railway, tramway	148063.1
85	Electrical, electronic equipment	129571.5
90	Optical, photo, technical, medical, etc	45566.0
72	Iron and steel	42181.2
99	Commodities not elsewhere specified	39375.7
39	Plastics and articles thereof	30385.9
89	Ships, boats and other floating structures	26054.8
29	Organic chemicals	24669.1
71	Pearls, precious stones, metals, coins, etc	17271.8

Source: UNCOMTRADE

Table 7: India's Top 10 Exports to World (US\$Million)

2005		
Product	Product Name	Value
71	Natural/cultured pearls, prec stone	16144.6
27	Mineral fuels, oils & product of th	10498.5
62	Art of apparel & clothing accessories	5075.9
26	Ores, slag and ash.	4851.1
29	Organic chemicals.	4442.6
72	Iron and steel.	4333.7
84	Nuclear reactors, boilers, mchy& m	4059.6
87	Vehicles o/trailw/tramw roll-stock	3204.9
61	Art of apparel & clothing access,	3124.8
73	Articles of iron or steel.	2748.1
2008		
Product	Product Name	Value
27	Mineral fuels, oils & product of th	32868.4
71	Natural/cultured pearls, prec stone	20175.4
72	Iron and steel.	8198.7
84	Nuclear reactors, boilers, mchy	8073.1
29	Organic chemicals.	7881.4
26	Ores, slag and ash.	6519.5
85	Electrical mchy equip parts thereof	6250.1
73	Articles of iron or steel.	6189.3
87	Vehicles o/trailw/tramw roll-stock	6017.6
62	Art of apparel & clothing accessories	5883.9
2011		
Product	Product Name	Value
27	Mineral fuels, oils, distillation products,	42493.6
71	Pearls, precious stones, metals, coins, etc	27902.9
29	Organic chemicals	12829.7
26	Ores, slag and ash	11365.1
85	Electrical, electronic equipment	10232.2
84	Machinery, nuclear reactors, boilers, etc	9638.7
87	Vehicles other than railway, tramway	9376.8
30	Pharmaceutical products	8476.6
62	Articles of apparel, accessories, etc.	7584.3
52	Cotton	6671.9

Source: UNCOMTRADE

4.0 Competitiveness of India and Japan

4.1 *International Revealed Comparative Advantages (IRCA)*

In order to analyse the comparative advantage of Indian and Japanese exports in the world market, the study made computations of the International Revealed Comparative Advantage (IRCA) for both countries by using the Balassa index. This index measures the share of a commodity in the total exports of a given country, divided by the share of the same commodity in total world exports. The higher the ratio from one, the stronger is that economy's comparative advantage in that particular commodity. Likewise, the lower the RCA from one, the weaker is that economy's comparative advantage in that commodity. When RCA equals one, the country's specialisation in a commodity is identical with the world specialisation in that commodity. The Balassa index is calculated as follows:

$$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt}) \dots\dots\dots (1)$$

Where x_{ij} and x_{wj} are the values of country i 's exports of product j and world's exports of product j and where X_{it} and X_{wt} refer to the country's total exports and world's total exports. Table 8 presents a summary of the comparative advantages that India and Japan have in the world market. The IRCAs for Japan and India are presented for Triennium Ending (TE) 2005 and TE 2008 (average of 2006, 07, 08). It is evident from the table that the IRCA of both India and Japan has remained stagnant from 2003 to 2008 and, in fact, at the disaggregate levels of HS classification, the IRCAs of both Japan and India have declined. This also proves that many developing economies in Asia and Africa have become competitive and

have captured sections of the world market. India and Japan, however, have not made any substantial improvements in their trade sectors to increase their respective international competitiveness. For instance, in the TE 2005, at the 2 digit level of HS classification, India had IRCA in 40 commodities in contrast to Japan's 15. But in the TE 2008, there was only a marginal improvement and the numbers increased to 41 and 17 for India and Japan, respectively. Moreover, at the 4 and 5 digit level, it is surprising that both countries have lost their IRCA in many commodities during TE 2005 to TE 2008.

It is important to note that some of the commodities having the highest IRCA for India include silk, lac, gums, resins, carpets, cotton, precious and semi-precious stones, textile fibers, tea, coffee, ores, and sugar. These items have been among India's top export items commanding a sizeable share in the world market. Similarly, some of Japan's commodities that are highly competitive in the world market include ships, boats, vehicles of railway and tram roll stock, nuclear reactors, electrical machinery and parts, rubber and articles thereof, iron and steel, glass and glassware. (See Annexure A) Gearing of policy towards these sectors may add to the trade performance of Japan and India in the international market.

4.2 Bilateral Revealed Comparative Advantages (BRCA)

Similar to IRCA, the study also computes RCA between India and Japan. Several authors have used the concept of Bilateral RCA (BRCA) in various ways, and using different formulae. In the context of this particular study, we use the modified version of Balassa's index called the Pasche formula (2002). For more information on other types of Bilateral RCA, see Utkulu and Seymen (2004); Ferto and Hubbard (2003); and Widgren (2002).

Bilateral revealed comparative advantage of an export category of India vis-à-vis a country, (Japan) has been defined as a ratio of “the share of India's export of this export category to Japan in India's total exports to Japan (numerator)” to “the share of India's exports of this category to the world in India's total exports to the world (denominator)”. While the RCA is a useful instrument in analysing relative comparisons of export performance of a country, it may not reveal the “true” competitiveness if the exports of a commodity are high due to, say, export or other subsidies.

BRCA is a modified form of RCA looking at bi-lateral comparative advantage between countries. This index reflects the competitiveness of both countries in each other's market in comparison to the rest of the world. The RCA of India and Japan in each other's market can be calculated as follows:

$$\text{India's RCA in Japan (RCA}_{ijk}) = (x_{ijk}/X_{itk}) / (x_{wjk}/X_{wtk}) \dots\dots\dots (2)$$

$$\text{Japan's RCA in India (RCA}_{kji}) = (x_{kji}/X_{kti}) / (x_{wji}/X_{wti}) \dots\dots\dots (3)$$

Where x_{ijk} and X_{itk} are India's export of commodity j to Japan and total exports of India to Japan, respectively, and x_{wjk} and X_{wtk} are India's export of commodity j to World and India's total exports to World, respectively. x_{kji} and X_{kti} are Japan's export of commodity j to India and total exports of Japan to India, respectively, and x_{wji} and X_{wti} are Japan's export of commodity j to World and Japan's total exports to World, respectively.

Similar to IRCA, the BRCA of Japan in India has declined at all levels of HS classification. For instance, in TE 2008, at the 6 digit level, Japan's competitiveness in the Indian market declined from 892 products to 859

products. India, meanwhile, has managed to retain its competitiveness in the Japanese market although there has been no increase. This reveals that there is tremendous scope to increase trade—and, thereby, competitiveness—between the two countries. The commodities having high bilateral comparative advantage for India include animal husbandry, musical instruments, nickel, ores, and slag, whereas for Japan the sectors are mineral fuel, iron and steel, nuclear reactors, salt, oil seed, and soap. (See Annexure B) The sectors securing top position in total exports, and having high comparative advantage (international as well as bilateral) are considered as the economy's most robust sectors in terms of trade. Paying attention to these sectors may strengthen the bilateral trade between India and Japan.

Table 8: Summary Statement of India and Japan's IRCA and BRCA

India and Japan's IRCA ≥ 1				
	TE 2005		TE 2008	
Classifications	India	Japan	India	Japan
HS 2 Digit	40	15	41	17
HS 4 Digit	385	304	377	290
HS 6 Digit	1524	1190	1486	1114
India and Japan's BRCA ≥ 1				
	TE 2005		TE 2008	
Classifications	India	Japan	India	Japan
HS 2 Digit	27	31	28	29
HS 4 Digit	190	280	194	253
HS 6 Digit	463	892	462	859

Source: Authors' Computations

4.3 Export Dynamic Products

Exports of products of a country with fast growth during a period of time are referred to as dynamic exports. It is important to identify such performers as these would eventually contribute significantly to a country's overall export earnings. Moreover, their dynamism indicates

future opportunities in exports vis-à-vis other products. Their identification may prove valuable for any multilateral/bilateral trade negotiations with other trading partners. (<http://www.worldbank.org/>). The export dynamic products can be identified by setting an arbitrary cut-off for a list of products that are sorted according to their growth rates over given time period. The products with growth rates exceeding the cut-off are then classified as dynamic exports. In our analysis the benchmark to determine export dynamic commodities is the total export growth of India and Japan.

We followed the following criteria for identifying India and Japan's dynamic export categories: matching with each year's growth rate of India and Japan's total exports during 2002-2008. The criterion is a strict test which identifies dynamic products as the ones which have their annual growth rate above India and Japan's total annual export growth rate in each of the eight years under consideration, i.e., 2001 to 2008. If a particular commodity at any digit or level of classification exhibits growth that is higher than the annual growth of India and Japan's exports to the world in the same year, in each of the eight-year period, it would qualify as export dynamic commodity. Table 9 presents the summary of export dynamic commodities of India and Japan at 2, 4 and 6 digit levels. The export dynamic commodities are more at the 4 and 6 digit levels of classification.

Table 9: Summary Statement of India and Japan's Export Dynamic Commodities

Classifications	India	Japan
HS 2 Digit	0	1
HS 4 Digit	4	13
HS 6 Digit	10	23

Source: Authors' Computations

4.4 Export Specialization Index

Export Specialisation Index of a product is computed as the “ratio of trade deficit/surplus to total trade” multiplied by 100. It can take values between -100 (when exports of a product are zero) to 100 (when imports of a product are zero). It takes a value of zero when exports are equal to imports. A higher positive value is indicative of relatively more exports than imports. A higher negative value is indicative of imports being more than exports. The study has attempted to compute Export Specialisation Index of Japan and India not only with the World but also with each other for the year 2008. It is apparent from the analysis that there is large-scale intra-industry trade between the two countries. However, the analysis also indicates that in the year 2008, India exported more similar commodities to Japan and imported less of the same commodities from Japan.⁵

5.0 Barriers to Trade in Both Countries

While keeping its commitments for the multilateral trading system, Japan has supported open regionalism and bilateral FTAs. The dynamism in Japan's approach to augment its existing trade is evident from its participation in innumerable international organisations.

Japan exercises few non-tariff barriers like import prohibitions and quantitative restrictions for example on the import of fish and silk items. Other NTBs include licensing requirements in order to ensure national security, safeguard consumer health and well-being or preserve domestic plant and animal life, (WRT, pp viii) namely the Sanitary and Phytosanitary Measures and the Technical barriers to trade (SPS and TBT).

5.1 SPS and TBT

Indian producers have repeatedly pointed out the unfair nature of Japan's use of SPS standards against imports of certain commodities from India. They protest that the permitted standards are dominated by the interests of the imposing country and restrict the democratic control over the setting of these norms due to India's ineffective participation in the entire standard setting process.⁶ The impositions are presently beyond the technical competence and have not received a time grant to be able to conform to the SPS legislations. Moreover, transfer of the compliant technology at fair and reasonable cost has been missing while introducing these regulations. India's domestic producers are keen to understand the science and technology fundamental to the setting of these standards. This would help to appreciate Japan's reservations while setting a base for further negotiations between various stakeholders. Japan's SPS standards serve as huge barriers to Indian exports of poultry, meat, tuna and shrimp marine products, fruits like mangoes/ grapes (Chapter 2, pp10 of Indo-Japan Report).

Indian manufacturers believe that they are being rendered uncompetitive by these standards and thus denied market access. For instance, despite India's initiatives to conform to Japan's regulations, the country's egg exports failed to pass the laboratory tests in the importing country, although tests conducted in the Indian laboratories showed opposite, acceptable results. This highlights the need for sharing and facilitating the underlying technology (ICRIER Working Paper 163, Debroy). Japan has notified SPS and TBT measures in the following products categories to the WTO: Foods and food additives produced by recombinant DNA techniques (SPS); Feed produced by recombinant DNA techniques (SPS); and all foods and beverages on sale for consumers (TBT).

5.2 Labeling, Certification and Testing

The Japanese industry has a marked support for testing, labeling and certification procedures. There have been instances of Japan's labeling and certification requirements in various sectors. These include an obligatory labeling for genetically modified foods in order to provide the consumers with accurate and reliable information. The government of Japan has undertaken some measures for food additives. Specific policy is also followed with regards to the non-quarantine pests, plant quarantine requirements and establishments of the pesticide residue standards. Japan also establishes maximum residue limits (MLRs) for veterinary drugs for their safety evaluation. Moreover, Japan is advanced in terms of energy conservation: it has set up standards for appliances that are highly energy efficient. For a rational use of energy, the imports of energy using products have to be compliant with the regulatory performance standards as well as labeling requirements with a rating. The product categories for such certification include the following:

- refrigerators and freezers;
- constant type room air conditioners;
- variable speed type room air conditioners;
- incandescent lamps lighting equipment;
- fluorescent lamps;
- lighting equipment; and,
- ballast for fluorescent lamps.

It is argued that the labeling programme is designed to encourage consumers to purchase better-grade appliances that are more energy efficient.⁷

Some of the above mentioned products—such as drugs and pharmaceuticals, machinery and instruments, and electronic goods—are exported by India to Japan. As the India-Japan EPA has come into effect, it is advisable, in the interest of the Indian producer and the Japanese consumer, that the issues for quality improvement and labeling are taken up in consultation with the applicant country, viz. India.

6.0 Trade in Services

The services sector is an important part of both Japanese and Indian economies: It contributes over 50 percent of GDP in India and above two-thirds in Japan. Trade in services provides benefits not only to the services sector itself, but to both the primary and secondary production sectors as well. Expanded services trade accordingly stands to improve the living standards and international competitiveness of both India and Japan. There are severe data difficulties in documenting trade in services in a fashion that is consistent with the negotiating framework of the WTO. On the basis of presentations made by the two sides, though, it seems obvious that India is an increasingly successful provider of business services to a broad range of developed countries, while Japan is importing such services from other nations, notably China.

Japan is a significant global exporter of services, often linked with overseas investment, yet the presence of Japanese services and firms in the Indian market is much less than in other parts of Asia. Demographic trends in India and Japan also suggest significant potential complementarities between the two services sectors well into the future. Table 10 presents India and Japan's share in world exports of commercial services. In the last decade India has been observed with an upward trend in its exports of commercial services, as its share in world commercial

service exports increased from 1.12 percent in 2001 to 3.28 in 2011. For the same period, Japan has reported a decline in share from 4.33 to 3.42. The services exports of both the countries got affected due to the recent global financial crisis.

Table 10: Exports of Commercial Services

Year	(US\$ Billions)			Share (Percent)	
	India	Japan	World	India	Japan
2001	17	65	1496	1.12	4.33
2002	19	66	1609	1.19	4.11
2003	24	72	1844	1.28	3.89
2004	38	90	2240	1.69	4.00
2005	52	102	2507	2.08	4.07
2006	69	115	2842	2.44	4.05
2007	87	127	3420	2.53	3.71
2008	107	146	3847	2.77	3.81
2009	93	126	3421	2.71	3.68
2010	123	139	3765	3.27	3.68
2011	137	142	4169	3.28	3.42

Source: WTO.

6.1 India-Japan Investment Relations

With growing economic strength, India has adapted its foreign policy to increase its global influence. Consequently, Indo-Japanese relations have undergone a paradigm shift and there is now an ongoing effort to build a strategic and global partnership between the two countries. According to a survey conducted in 2008 by the Japan Bank for International Cooperation (JBIC), India has become the most favoured investment destination for long-term Japanese investments. In the portion of the survey dealing with promising countries (including quantifications of countries viewed as promising for business expansion), China maintained the top position, but the number of companies viewing China as promising is declining. Also, the very recent controversy

between Japan and China regarding disputed islands may discourage Japanese firms to explore further investment opportunities. On the other hand, more companies are seeing greater promise in India, Russia, Brazil, and other emerging countries. The number of companies that view India as promising has increased to a level at par with China. The “growth potential of the local market” was listed as the top reason for India being a promising destination, a response revealing the hopes placed on the future growth of the Indian market. Listed third is the presence of “qualified human resources”, for which India got relatively higher marks than other countries. The biggest issue for India remains its “underdeveloped infrastructure”. Infrastructural improvements are believed to be making progress and simultaneously, the demands of companies seeking to make forays into India also appear to be on the rise.

For sure, India's robust economic growth in recent years has not gone unnoticed in Japan. Japan is now the fourth-largest FDI investor in India. Cumulative FDI inflows from Japan touched \$12,663 million during April, 2000 to June, 2012. This includes investments in acquisition of existing shares, RBI's NRI schemes, stocks swapped and advance pending issue of shares. Although Japan has remained one of the top ten investors in India since the 1990s, its contribution to India's FDI inflow was only 4.29 percent of total FDI inflows between 1991 and 2007. Investment volumes have also fluctuated. FDI inflows from Japan increased during 2000-2002 in terms of share but declined thereafter until 2006, only to rise again in 2007.

In 2009-10, the share of Japan in total FDI inflows of India stood at 4.61 percent, increasing to 8.14 percent in 2011-12 (See Table 11). At the macro level, Japan has increased its investment flows substantially in absolute terms in recent years, but the share has declined compared to its

level of early 2000s. The figures of Table 11 suggest that India is proving a most attractive destination to world investment and it gives a new direction to Japan to increase its share in India's total FDI. Though the recent growth figures for India are not soothing, the huge domestic demand of the dense population—particularly in an environment when most of developed countries are still recovering from economic shocks—gives a new direction to Japan to explore untapped investment potential in India. The recent decisions to remove some cap of FDI on retail, aviation, power exchange and cable and DTH, may be considered as a highly encouraging factor for foreign investors.

Table 11: FDI Flows into India from Japan (US\$ Billion)

Year	Total FDI Inflows into India	FDI Inflows from Japan	Japan's Share*
2002-03	3.13	0.41	13.15
2003-04	2.63	0.08	2.96
2004-05	3.75	0.13	3.36
2005-06	5.55	0.21	3.75
2006-07	15.73	0.09	0.54
2007-08	24.58	0.82	3.32
2008-09	27.33	0.41	1.48
2009-10	25.83	1.18	4.61
2010-11	19.43	1.56	8.04
2011-12	36.50	2.97	8.14

Source: Department of Industrial Policy and Promotion, Government of India., * In India's total FDI inflows

The decline in Japan's share in total FDI inflows into India can be attributed to several factors including the failure of Japanese companies to understand the Indian consumer. The constraints faced by Japanese investors in India are explained in the next section.

6.2 Constraints to Japanese Investment in India

As mentioned earlier, several countries have overtaken Japan in terms of their investment in the Indian market. According to a recent report submitted to the Department of Industry Policy and Promotion, the Japan Chamber of Commerce and Industry in India (JCCII) characterises the Indian business environment as “tough”. The document titled “Suggestions for Government of India by JCCII” (Annexure C) contains detailed suggestions related to the following issues:

- Land acquisition and utilisation;
- Tax system;
- Infrastructure;
- Logistics distribution;
- Relaxation of FDI regulations;
- Visa application procedures;
- Inefficiency and lack of administrative transparency;
- Social security agreement;
- Intellectual property rights;
- Specific issues related to the financial sector and steel;
- Standardisation of bid requirements as per international standards.

JCCII contends that these issues need to be settled in order to generate greater interest among Japanese investors. Controversial issues like retrospective tax law of GAAR (General Anti Avoidance Rule), cancellation of telecom sector licenses, and others, have been in the news among stakeholders during the past year. Japanese investors describe the tax system in India as too complicated and difficult to understand. India's land acquisition and utilisation procedures are also mentioned as a major obstacle to Japanese investment in India because they are not only

complicated but also non-transparent. The failure to fulfill contractual obligations such as those relating to 14 power and water supply, and drainage projects in the case of industrial parks is another major issue. Japanese companies have also asked for the simplification and speeding up of procedures for various permits that are required for construction. In fact, language itself is a major barrier and restricts easy interaction between business representatives of the two countries. There is lack of awareness and information about each other's market.

What is noteworthy is that these very same factors have not constrained the inflow of investments to India from other countries like South Korea. A comparison of Japanese and South Korean companies in India shows that the latter have dominated the Indian market for the last few years. Korean firms like Daewoo, Hyundai, LG, Samsung and Goldstar entered the Indian market aggressively after the mid-Nineties. Japanese firms like Toshiba, Sanyo and Sharp lost out to the competition posed by their Korean counterparts. The only exception was Sony. Korean products appear to have fared well in the price-sensitive Indian market. One reason is that Korean companies have localised the production of components and parts and used local labour. Hyundai's success in undertaking large investments with high domestic content demonstrates that there is scope for FDI inflow in hi-tech industries, subject to scale economies (Nagaraj, 2003). India has been unable to attract the attention of Japanese multinational enterprises and benefit from the trade-FDI nexus as other countries have. According to Goldar and Ishigami (1999), the extent of trade flows between Japan and the host country has been found to be a more significant factor influencing FDI inflows from Japan than the size of the local market and degree of openness. The much greater level of trade union activity in India compared to East Asian economies also influenced the investment decisions of Japanese

multinational enterprises. In fact, the recent volatile episode involving the Maruti Suzuki plant in Manesar which witnessed major labour unrest also seems to be discouraging new Japanese firms from entering the Indian market.

According to Kumar (2002), a high valuation of geographical proximity and cultural affinity by Japan's MNEs and the availability of quality infrastructure in the host countries helps explain the concentration of export-oriented investment by Japanese MNEs in the East Asian economies and their relative neglect of India.

Overall, Japanese firms are deterred from investing heavily in India due to differences in business practices, environment and culture. Even the Indian corporate sector acknowledges the chronic hesitation among Japanese corporations to do business in India. Mandal, one of India's largest law firms, has been quoted as saying that Japanese businesses have been slow in recognising the changes that have taken place in India's economic regime. After years of subdued ties following India's nuclear tests in 1998, two large deals in 2008 appear to have set the stage for a renewed wave of Japanese investment in India. These two deals are Daiichi Sankyo-Ranbaxy Laboratories and NTT DoCoMo-Tata Teleservices Ltd. (TTSL). Japanese pharmaceutical giant, Daiichi Sankyo, bought a 34.8 percent controlling stake in India's largest pharmaceutical firm, Ranbaxy Laboratories. The deal, announced in June 2009, valued Ranbaxy at \$8.5 billion. A few months later, Japanese telecom giant NTT DoCoMo bought a 26 percent stake in Tata Teleservices Ltd. (TTSL). However, Japanese business would do better if they established 100-percent subsidiaries that tap the local market for their work force, including managerial requirements than setting up joint ventures with local Indian partners.

7.0 Areas of Future Cooperation

In looking to the future, India and Japan may do well to focus on certain complementarities between them in terms of economic structures and outlook. The agreement between the two countries needs to look beyond increasing trade and investment flows by removing the existing barriers on both sides; it must also emphasise co-operation and technical collaboration in various sectors. Co-operation is needed especially in those sectors in which trade complementarity is high, and this should be done through both government and private initiatives. Japan and India could collaborate in the bio-technology, nano technology, information technology, automobile, aerospace, textiles, leather, marine products, and other industries. India's fast expanding economy will create a large demand for energy: Various opportunities abound for collaboration between Indian and Japanese companies in the area of energy-efficient and environment-friendly technologies. The agreement is expected to increase exchanges in IT, ITES, financial services, construction, transportation, and healthcare services. Another feature of the agreement includes work permit for three years to Japanese workers from the automobile industry. Japan will benefit in the area of auto-parts, export of high grade steel and high technology consumer items to cater to India's growing middle class.

7.1 *Gains from EPA*

The CEPA negotiations between Japan and India were protracted and took a long time to conclude. The consecutive rounds of CEPA were concerned about protecting the items reported under the negative list, quality control norm for import of farm goods and a handful of gains to

India through CEPA as Japan is already levying lower level of tariffs on Indian imports. Furthermore, the conclusion of CEPA reportedly got delayed due to a few unresolved issues like those of non-tariff barriers to the export of generics and pharmaceuticals to Japan. In the automobile industry, Japan, unlike other players, imports most parts from domestic suppliers. Another promising area is chemicals, which remains relatively underdeveloped due to Japan's highly strict approval requirements.⁸

The EPA is expected to have contributed to the stable industrial structure and helped small and medium companies with high-end technology and open management to expand into the global market. Given the differences in economic structure between Japan and India, the benefits of these changes will probably outweigh the risks of increased competition between the two countries. The agreement is also a part of India's "Look East" policy followed to reduce dependency on western markets and provide an alternative centre of international production to Japan after China. Bilateral relations will be further solidified and the EPA would send signals to the world that the two countries are committed to free trade and are against protectionism. Moreover, the EPA has helped Japan to effectively compete with South Korea in the Indian markets. It has also enhanced export opportunities for Japan. The EPA has given a big boost to Japanese auto parts manufacturers who can export duty free to India. It is, in fact, Japan's auto sector which has lobbied hard for this agreement. The agreement has also enhanced competition in the area of generic drugs and helped India expand its role as a global centre for manufacturing. Overall, the India-Japan EPA is a step in the right direction given the slowdown in world trade. The reduction and abolition of tariffs through the EPA have resulted in an increase in trade and investment relations between the two countries.

There is also a discussion around why the India-Korea CEPA was signed early and took less time to conclude as compared to the India-Japan CEPA. The reasons for this are many. India got a momentum of high economic growth after the introduction of structural adjustment programme. In order to sustain this phenomenon, India realised that further opening up of investment and opening up of trade was necessary. India was in dire need to develop its highways, railroads, seaports, airports, and electrical generating facilities. In the early years of the 21st century, India adopted the “Look East Policy”. Existing literature identifies Korea as an important part of this policy, the reason being that Korean construction companies were found for international record of developing excellent infrastructure facilities. Moreover, as per the Joint Study Group Report (2006), India was exploring to go in for economic expansion with a country of complementary structure. It was highlighted that Korea and India had great potential for economic expansion in the overall sectors, deriving from their complementary trade and industrial structures, analogous economic reform policies, cultural and historical links, and much more.⁹ These factors may be attributed to the early negotiations for an India-Korea CEPA.

8.0 Conclusion

The implementation of the India-Japan Comprehensive Economic Partnership Agreement (CEPA) needs to be carried out in its true spirit to tap the huge potential that exists for further development, since both bilateral trade and investment are below potential considering the economic size of the two countries. Trade and investment values are also low in comparison to other major economies. Trade and investment flows from Japan to India are only 3 percent of the volume of trade and

investment from Japan to China. Overall, India-Japan CEPA is a major step in enhancing bilateral relations and also to promote the economic rise of Asia. While in trade it has been beneficial to both the countries and particularly for India, Japan would find it easier to invest in India and cater to the huge domestic market as well as use it as a manufacturing hub using cheap labour.

Furthermore, mutual collaboration in many important sectors such as energy and research and development, would benefit both economies. The signing of the CEPA has brought the two countries closer and may help in expediting the process of signing the civil nuclear agreement. India's ambition to produce clean nuclear energy in future depends heavily on Japan as its manufacturers provide essential parts of nuclear reactors to the US, France, and other members of the nuclear suppliers group. The improved cooperation due to CEPA has opened up new opportunities to both countries in every sphere that is essential for harmonious growth of Asia, which is being highly touted as the world's growth centre in the coming century.

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Annexure A

Table A.1: Commodities having Strong IRCA for India

S No.	Product	Product Name	TE 2002	TE 2005	TE 2008
1	50	Silk.	16.75	15.40	10.06
2	13	Lac; gums, resins & other vegetable saps	15.19	11.21	9.26
3	57	Carpets and other textile floor coverings	10.12	8.84	8.22
4	52	Cotton.	10.12	6.77	8.15
5	71	Natural/cultured pearls, precious stones	9.87	9.61	6.45
6	67	Prepr feathers & down; artificial flowers;	3.88	4.81	5.35
7	63	Other made up textile articles; sets	8.67	7.26	5.31
8	53	Other vegetable textile fibres; paper yarn	6.31	5.22	4.76
9	14	Vegetable plaiting materials; vegetable products	6.43	5.08	4.71
10	09	Coffee, tea, mati and spices.	8.29	5.63	4.70
11	26	Ores, slag and ash.	3.29	5.78	4.30
12	23	Residues & waste from the food industries	2.89	2.83	3.83
13	55	Man-made staple fibres.	2.94	3.37	3.60
14	42	Articles of leather; saddlery/harness	6.25	4.40	3.25
15	17	Sugars and sugar confectionery.	2.04	1.17	3.23
16	10	Cereals	3.90	4.43	3.15
17	62	Art of apparel & clothing accessories, net knitted	4.86	3.52	3.14
18	25	Salt; sulphur; earth &ston; plastering material	3.69	3.65	2.99
19	54	Man -made filaments.	2.55	2.97	2.87
20	41	Raw hides and skins (other than fur skins)	2.86	2.72	2.61
21	79	Zinc and articles thereof.	0.15	0.46	2.49
22	61	Art of apparel & clothing accessories	3.41	2.98	2.39
23	97	Works of art, collectors' pieces antiques	0.06	4.47	2.35
24	68	Art of stone, plaster, cement, asbestos & mica	2.44	2.13	2.07

Source: Authors' Computations

Table A.2: Commodities having Strong IRCA for Japan

S No.	Product	Product Name	TE 2002	TE 2005	TE 2008
1	37	Photographic or cinematographic goods	3.08	3.62	4.48
2	89	Ships, boats and floating structures	2.98	2.89	2.77
3	87	Vehicles other than railway/tram roll-stock	2.12	2.22	2.55
4	92	Musical instruments; parts and accessories	2.74	2.38	2.33

Source: Authors' Computations

Annexure B

Table B.1: Commodities having Strong BRCA in India

S No.	Product	Product Name	TE 2002	TE 2005	TE 2008
1	05	Products of animal origin, nes or included	11.41	15.53	14.96
2	06	Live tree & other plant; bulb, roots	2.84	4.83	11.01
3	03	Fish & crustacean, mollusc & other acquatic invertebrates	8.01	6.94	7.30
4	14	Vegetable plaiting materials; vegetable products	1.77	2.82	6.99
5	16	Prep of meat, fish or crustaceans.	6.04	7.39	6.78
6	23	Residues & waste from the food indu stries	1.37	3.36	5.41
7	59	Impregnated, coated, cover/laminated textiles	0.69	2.10	4.46
8	92	Musical instruments; parts and accessories	1.80	2.37	3.66
9	75	Nickel and articles thereof.	0.12	-	3.64
10	15	Animal/veg fats & oils & their cleavage	2.78	2.95	3.46
11	26	Ores, slag and ash.	7.53	4.84	2.90
12	81	Other base metals; cermets; article	0.27	1.64	2.83
13	35	Albuminoidal subs; modified starches and glues	1.75	1.80	2.27
14	90	Optical, photographic, cinematographic, measuring thereof	2.33	2.50	2.23
15	13	Lac; gums, resins & other vegetable saps	1.74	3.25	2.07

Source: Authors' Computations

Table B.2: Commodities having Strong BRCA in Japan

S No.	Product	Product Name	TE 2002	TE 2005	TE 2008
1	82	Tool, implement, cutlery, spoon & forks	3.79	2.14	2.75
2	27	Mineral fuels, oils & product of their distillation	4.72	4.74	2.68
3	73	Articles of iron or steel.	2.32	2.08	2.57
4	34	Soap, organic surface-active agents	3.44	2.74	2.53
5	25	Salt; sulphur; earth & ston; plastering materials.	2.20	2.62	2.47
6	12	Oil seed, oleagi fruits;	4.46	3.00	2.47
7	63	Other made up textile articles; sets	2.64	4.72	2.36
8	37	Photographic or cinematographic goods	4.22	2.95	2.24
9	72	Iron and steel.	2.39	1.99	2.04

Source: Authors' Computations

Annexure C

“Suggestions for Government of India” by JCCII

- Remove supply side bottlenecks for higher economic growth
- Special additional tax should be exempted for the CBU (Complete Built Unit) automobiles for retail.
- The SAD refund application filed by the importers should be processed without further delay.
- For transfer price taxation, The Advance Pricing Agreement (APA) should be introduced at an early stage, and the detailed rules must be disclosed well in advance of the introduction of New Direct Tax Code.
- Goods and Services Tax should be introduced at the earliest.
- For Visa, those Japanese professionals or technicians who are dispatched by Japanese companies in order to help technical works of Indian companies for a short period should be eligible for business visa, even though some expenses are born by the Indian companies.
- Relaxation or removal of the condition which requires at least 2 year domicile in third country for grant of Visa
- Removal of the need for submitting Marriage Certificate and Birth Certificate for X (Entry) Visa holders at the time of renewing of visa
- Despite all the efforts by concerned organizations, the conditions of the access roads to Ennore Port have unfortunately been aggravated and no major improvement has been seen other than temporary work on the surface.
- Timely and effective support by Government of India in expediting the completion of the following road improvement and establishment.
 - a) widening and improvement of existing roads in Northern Chennai
 - b) establishing outer detouring around city
- The early revision of the port related charges of Ennore Port, which are extremely high compared to other international ports. They are currently 5.2 times higher than Leam Chabang Port in Thailand, 8.3 higher than Colombo in Srilanka and 2.3 times higher than Chennai/Mumbai Ports.
- The capacity of Nhava Sheva port has already reached its limit. It is necessary to plan and create an alternative or additional capacity to absorb increasing demand of shipping transportation.

- We appreciate the recent decision made by Government of India to establish new Bangalore – Chennai Expressway.
- Efficient utilization of railway system is vital to increase the competitiveness of Indian industry in freight quality, speed and cost.
- Introduction of more efficient controlling system for train operations is essential for more frequent industrial usage of the railways.
- Introduction of comprehensive port logistic management System
- Land acquisition process needs to be addressed properly
- JCCI requests for an early conclusion of the social security agreement between India and Japan.
- Free Trade and Warehousing Zone
- To ease the restriction of borrowing from Head Office to stabilize the fund management of the foreign banks and to facilitate their supply of the fund to the domestic market.
- To grant permission to foreign banks to open branch offices in metropolitan area in India in a more liberal and prompt manner.
- To raise the upper limit of foreign direct investment in insurance sector (currently 26% of the equity share) immediately.
- To abolish the motor pool system in general liability insurance for commercial vehicle, or to amend the insurance rate.
- To further relax the regulations related to ECB in order to enable ECB to be used for working capital.
- Withdrawal of the Minimum Alternate Tax imposed on SEZ units.

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