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India-Japan partnership: Trade and beyond

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India and Japan have an important role to play, regionally and globally, in the coming decade.



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Asian heavyweights India and Japan are strategic partners with a common interest of promoting peace, security, stability, and prosperity in the world and especially in the Indo-Pacific region. India and Japan share essential values such as political liberalism, the market economy, the rule of law and democracy.

Over the years, Japan has been one of the most important economic partners for India's development. It has been extending bilateral loan and grant assistance to India since 1958 and is the largest bilateral donor for India. Japan's Official Development Assistance (ODA) supports India's efforts for accelerated economic development particularly in priority areas like power, transportation, environmental projects, and projects related to basic human needs. The Delhi Metro is a shining example of successful India- Japan cooperation through the utilisation of Japan's ODA. More recent illustrations of this cooperation are—the Mumbai-Ahmedabad High-Speed Rail, the Western Dedicated Freight Corridor (DFC), the Delhi-Mumbai Industrial Corridor with twelve industrial townships, the Chennai-Bengaluru Industrial Corridor (CBIC) etc. All these megaprojects on the anvil are poised to transform India in the next decade. Japan's ODA commitment in FY 2018-19 was at the historic highest amount of JPY 537.4 billion.

India- Japan trade

The India-Japan Comprehensive Economic Partnership Agreement (CEPA) signed on February 16, 2011, aimed at eliminating 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. The CEPA with Japan is among the most comprehensive trade agreements that India has entered with any country. However, post the signing of CEPA, even as trade between India and Japan grew from US\$ 13.1 billion in 2010 to 17.6 billion in 2019, India's exports to Japan have remained at the same level in 2019, as they were in 2010.

In fact, India's exports which witnessed growth during the period 2011-13, and peaked at US\$ 7.3 billion in 2013, have since then declined to the pre-CEPA levels. India's major exports to Japan comprise petroleum products, followed by organic chemicals, fish and aquatic invertebrates, natural or cultured pearls, precious or semi-precious stones and machinery and mechanical appliances. Imports, on the other hand, have increased by around 53% from US\$ 8.3 billion in 2010 to US\$ 12.7 billion in 2019. India's top import items from Japan are

machinery and mechanical appliances, followed by electronics, iron and steel, plastics, and copper and its articles.

Consequently, India has been persistently running a trade deficit with Japan, which has worsened by more than two-fold from US\$ 3.5 billion in 2009 to US\$ 7.9 billion in 2019. Reflecting the sharp rise in imports from Japan, sectors which present the largest trade deficit for India in 2019 are machinery (deficit of over US\$ 3 billion), electrical and electronic equipment (deficit of around US\$ 1.2 billion), iron and steel, plastics, copper and its products etc. Thus, even though the total trade between both countries has almost doubled in the last 12 years, the widening trade deficit is a matter of concern for the long-term sustainability of bilateral trade relations.

India's export potential

It is important to note that, among the major items in Japan's import basket, India has achieved a relatively healthy share (of more than 3 percent) in Japan's global imports of only three product categories viz organic chemicals, natural or cultured pearls, precious or semi-precious stones, and fish and other aquatic invertebrates. However, in the case of the other leading items in Japan's import basket, India's share is still marginal. India has an untapped export potential of US\$ 3.2 billion with Japan. There is significant potential for India's exports in categories such as mineral fuels and oils, electrical machinery and equipment, machinery and mechanical appliances, optical, photographic equipment, pharmaceutical products, articles of apparel and clothing, etc, according to an India Exim Bank research.

Reviewing the CEPA

Taking note of the lopsided growth in trade, India has recently called for reviewing CEPAs with both South Korea and Japan, in order to check the increasing trade deficit with these countries. While India has already completed eight rounds of negotiations with South Korea for reviewing the CEPA, discussions with Japan for a revision are going on.

Indian exports to Japan are presently affected by a number of issues, which include both tariff, and Non-tariff Barriers like Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). An India Exim Bank study titled "Study on Non-Tariff Measures" points out that in Japan, the average tariff on products of export interest to India are 7 percent, which is higher than the simple average (4 percent) of the tariff of the country as a whole. This is despite the fact that India has a CEPA with Japan.

Tariffs on products of Indian interest for exports to Japan like dairy products, cereals and preparations, rice, leather and footwear are very high. Thus, in the subsequent CEPA review negotiations, India can seek for tariffs reduction in these product categories. Other higher tariffs are imposed on clothing and some food products, and hence may also be reconsidered in the negotiations. In order to achieve a target of US\$ 5 trillion economy, India should aim to increase its exports to US\$ 1 trillion. In this direction, it is imperative for India to utilise its trade agreements to its maximum advantage.

Beyond bilateral trade

However, the potential for India and Japan's relation extends beyond the sphere of bilateral trade and investments. India and Japan have aimed at coordinating India's "Act East" policy and Japan's vision of a free and open Indo-Pacific. Thus, post the 2016 India-Japan summit, the leaders of the two countries had expressed their intention to "work jointly and cooperatively with the international community to promote the development of industrial corridors and industrial network in Asia and Africa". This had given birth to the idea of the Asia-Africa Growth Corridor (AAGC), which is a megaregional program aimed at improving ties between Asia and Africa, bringing economic prosperity and encouraging sustainable development by building institutional and industrial corridors and networks for capacity enhancement, encouraging free and seamless movement of people, trade & investment, energy and enhancing partnership for infrastructure.

India has put in place important policy measures as also institutional frameworks to create an enabling trade and business environment with Asia and Africa. But since India itself is a developing country, it faces the challenges of resource constraint for developing large-scale inter-continental infrastructure. On the other hand, Japan's complementary role in Africa is through its strong Official Development Assistance (ODA) programme in the continent.

A 2017 Japan External Trade Organization (JETRO) survey had shown that Japanese companies operating in India have a significant interest in the African market, which they see as the most significant future destination. India could be a good springboard for Japanese companies to enter the African market because it is geographically closer to Africa, enjoys strong historic and cultural ties with the continent with its business and diaspora networks, and shares similar market characteristics and product needs.

Therefore, as a common partner of Asian and African countries, India is positioned to play a crucial role in the AAGC. In doing this, India stands to improve its own integration into the global value chains of production. Thus, both India and Japan

stand to benefit from this collaboration. India could enhance its exports of manufactured goods, while Japanese companies based in India could take advantage of Indian business networks in Africa to enter African markets. Japanese companies could then enjoy large economies of scale by expanding their business in the continent.

India and Japan have an important role to play, regionally and globally, in the coming decade. Stronger trade integration between the countries would serve to enhance this partnership further in the 'New Asian Era'.

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