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POLICY BRIEF

India-Japan Economic and Trade Partnership: Suggestions to make it Balanced and Mutually Beneficial

*Dr. Shamshad A. Khan **

An independent India always wanted to forge a complimentary relationship with Japan in the fields of economy and trade. To achieve this objective, India offered key minerals and raw resources to war ravaged Japan in the 1950s, hoping that latter's economic recovery will lead to its own economic development.

However, India-Japan relationship could not transform into a complimentary relationship till the end of the Cold War period. After the end of the Cold War period, which coincided with India's economic liberalisation, New Delhi yet again decided that the economy should be the "bedrock" of a stronger and complementary relationship with Tokyo. It decided to uplift the abysmally low bilateral trade volume between the number two and number three Asian economies by signing a Comprehensive Economic Partnership Agreement (CEPA) in 2011, which covers trade in goods and services between the two. Moreover, India termed this agreement as an "alliance between Japanese technology and capital and a young Indian labour force." Both the countries had decided to take the low trade volume of US Dollar 10 billion to 20 billion by 2010. But they have missed the target and instead of going up, bilateral trade is on a downward spiral. Also, because of certain non-tariff barriers imposed by Japan, the inflows of Indian goods in Japan remain limited. The investment flows from Japan as well as increasing number of Japanese companies

setting up their industry in India are encouraging signs. However, a comprehensive and complementary economic relationship, which was envisioned by the leaderships of the two countries, is yet to be achieved. This policy brief, in this regard, offers some suggestions, whose implementation may give a new fillip to economic and trade relationship between India and Japan.

One of the many objectives of the India-Japan CEPA was to exponentially enhance the bilateral trade volume between the two countries and deepen the economic ties. CEPA did bring impressive results and within a year of this agreement coming into effect in 2011, the bilateral trade touched US dollar 18.32 billion in the fiscal year 2011-12 as compared to US dollar 13.72 billion in 2010-11. However, after two consecutive years of touching new heights, the bilateral trade has decelerated. After touching US dollar 18.51 billion in fiscal year 2012-13, bilateral trade between India and Japan came down to US dollar 16.29 billion in fiscal year 2013-14. It slid further down to US dollar 15.51 billion in fiscal year 2014-15. If the trend continues, it may reach the level of 2010, in another few years, defeating the purpose of the CEPA.

Keeping this in mind, both Indian and Japanese governments should find ways to make the CEPA relevant and should consider a few options in this context. One of the options could be to “reopen” and review the CEPA. Recently, India and South Korea have agreed to review their CEPA as they realized that their bilateral trade has stagnated. Since the bilateral trade between India and Japan is also showing signs of stagnation, both the countries should also think to review their CEPA and make it more inclusive to yet again push the trade volume on an upward trajectory.

The second option could be to conclude some of the “inconclusive” parts of the CEPA signed in 2010ⁱ. It may be reminded that Japan has signed similar CEPA (known as EPA in Japan) with Indonesia and Philippines, where it has allowed nurses and careworkers to work in Japan as part of the EPA. India was also asking similar treatment for its nurses and caregivers in the India-Japan CEPA. Japan, in principle, had agreed to give the same treatment to Indian workers, but sought more time, as it found that majority of the nurses

and careworkers are finding it difficult to attain language proficiency after their two years of internship in Japan. Passing the language test was a pre-requisite to start a full-fledged work in the service sectors catering to the medical requirements of Japan's ageing society. However, Japan has revisited this policy and has simplified the language tests for expats, which has resulted in a large number of those expats clearing the Japanese language test. Since Japan is no more facing the difficulties it cited to India, it should conclude this "inconclusive" aspect of India-Japan CEPA. This will allow more Indians to work in the Japanese service sectors, as CEPA promises trade not only in goods, but also in services.

Thirdly, India should look at the new avenues and openings in Japan and should try to tap these opportunities. Recently, Japan has announced a New Industrial Policy under which it plans to allow some 60,000 high technology skilled workers by 2020 to revitalize Japan's industry. Since the CEPA promises trade in services and assures flow of human resources between the two countries, it would be pertinent for India to request Japan to give preferential treatment to countries with which it has signed CEPA. Moreover, India should ask Japan to fix a quota for Indian high skilled workers under this New Industrial Policy.

It may be recalled that India-Japan strategic partnership was aimed at creating a "win-win" situation for both the countries. It has certainly resulted in a much more concerted response by the two countries on the issues and challenges faced by the world, including the freedom of navigation and security of sea lanes of communication. However, in the field of economy and trade, it has brought more advantage to Japan than to India. For example, in the India-Japan bilateral trade, which stands at US dollar 15.51 billion at present, India's share is only 5.38 billion US dollar. It may be noted that when both the countries signed the CEPA, they drastically reduced tariffs on some 90,000 goods being traded between the two countries, hoping that this would increase their overall trade volume on the one hand and, on the other hand, it would lead to a balanced trade between the two.

Japan has allowed the entry of some of the Indian vegetables, fruits, poultry and fisheries. However, some of the Indian agricultural produce as well as fisheries and shrimps

do not come up to the Sanitary and Phyto Sanitary (SPS) measures applied by Japan. There are reports that suggest that some of the Indian shipments to Japan had to be taken back as they could not come up to the Japanese SPS standards. Similarly, India's generic medicines' share in Japanese markets is less than one percent of the total consumption of generic drugs. It is said that the "whiteness" of Indian medicines does not match with that of the Japanese ones; because of this, the local consumers shy away from buying these medicines. Therefore, till India overcomes these Non-Tariff Barriers (NTBs) on its food products as well as generic medicines, it would be difficult to gain access to the Japanese market and, in that case, it would be difficult to achieve a trade balance with Japan. To overcome these NTBs imposed by Japan, India should ask Japan to share and facilitate the technologies, application of which would lead to improvement in Indian products' SPS measure standards as well as Indian medicines could match the colours including the whiteness of the Japanese generic medicines.

One of the objectives of India-Japan strategic partnership was to harness Japan's technological prowess. India's focus has been to gain high-end technologies including civil nuclear technology, technology related to US-2 amphibious aircrafts and Soryu class submarines. Japan attaches too much political sensitivities to these technologies. India would need sustained efforts to break the stalemate to gain access to these technologies. However, it is appreciable that Japan has shared some of its technology with India, especially those related to renewable energy (solar, hydro power and wind, etc.) as well as technology to cut carbon emissions from coal based power plants.

Apart from these high-end expensive technologies, India should try to harness Green House technology for farming and food reprocessing. Japan has developed cost effective Green House method for producing vegetables and fruits on small tracts of land. India should collaborate with Japan to learn the knowhow related to this technology. Using this technology for vegetable and food production may not be economically viable at this point of time for India, but given the large scale urbanization that is being planned in India, early adoption of this technology would be very helpful in future. Secondly, food processing could be another area in which India needs Japanese technology and knowhow. Estimates

suggest that some 40 percent of vegetables and fruits go waste in India, while Japan has been able to minimize the wastage by using food processing technology and an effective supply chain. Collaboration with Japan in this field would help India improve its food security.

Conclusion

Needless to say, 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.

**Dr. Shamshad A. Khan is a Research Fellow at Indian Council of World Affairs, New Delhi*

¹ The official document of India-Japan CEPA in this regard notes that “Japan shall enter into negotiation with India.....regarding the acceptance of Indian qualified nurses and certified careworkers by Japan, with a view to reaching a conclusion of the negotiations within one year if possible, but not later than two years, after the entry into force of this Agreement.” Please refer to “Comprehensive Economic Partnership Agreement Between Republic of India and Japan,” Ministry of Commerce, Government of India, 2010, p.972.