



ICRIER Conference
on
India-Japan Relations:
The Regional Perspective
India-Japan CEPA

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India-Japan CEPA

Main Focus

Liberalization of

- (i) Trade in Goods
- (ii) Trade in Services
- (iii) Investment
- (iv) Cooperation

India-Japan CEPA

Basis: Complementarities

- Cost effective human resources from India Vs growing labour scarcity and rising wages
- Natural complementarities in agriculture
- India's capacities in pharma, biotech and auto Vs Japan's strengths in machinery, automobiles, chemicals
- India's software prowess Vs Japan's capacity in hardware

Complementarity gets further reinforced

- New initiatives that form part of Abenomics further highlight – shrinking workforce, more reliance on IT, more cost effective health care and also strategy of global outreach.
- New initiatives launched in India – ‘Make in India’, ‘Skill India’, ‘Digital India’ and ‘Start up India’ require capital, technology, skills and entrepreneurship.

CEPA – Performance in four years

India's exports to Japan

- Four year average of exports pre and post CEPA – rise by 58% - same as overall exports.
- For 75% of exports CEPA tariff concessions do not matter. Duties on them Zero on MFN basis.
- But on balance 25% of exports, good utilisation, gains in sea food, garments, pharma, leather, pigments and dyes.

CEPA performance in Four Years

India's exports to Japan

- Most tariff reductions already kicked in for India - less than 8% remain to be eliminated by 2021.
- There can be no further significant increase in exports if more competitive capacities do not come up in garments, value added sea food, generic pharma, set jewellery, auto products etc.

India's Imports from Japan

- Four year average pre and post CEPA show rise by 49% - some what less than 55% for India's overall imports
- No overall dramatic rise but sharp increases in Steel, Copper wire, Nickel.
- Substantial rise in imports – certain items of machinery, ships and floating structures, autos, optical instruments, plastics.
- Rising CEPA utilisation.

India's Imports from Japan

- Trade balance close to US\$ 5 billion in 2014 – 15.
- Tariff concessions for Japan will improve significantly in the coming years— plus JICA projects and Japan FDI could see deficit widening.

India's Trade with Japan





Implementation Issues (Joint Committees, Sub Committees)

1. SPS and other standards – sesame seeds, sea food, fruits, etc.
2. Greater regulatory Cooperation in Pharma sector.
3. Customs concordance, Cooperation on trade facilitation.
4. Tariff improvements for some products – sea food, set jewellery, agro products.

Trade in Services

- Japan making steady inroads into Indian services sector – 14% of FDI Stock – Asset Management, Banking, Insurance, IT, Retail, Hospitals
- Indians IT and IT enabled services yet to penetrate Japan market – Account for less than 1% market share – some momentum in the last couple of years.

Japan's Service Trade with India (Unit million US\$)

	2010	2011	2012	2013	2014
Japan's export of services to India (US\$ million)	2,088	2,134	2,062	2,133	2,076
Japan's import of services from India (US\$ million)	728	752	750	836	1,340
Balance of trade for India (US\$ million)	(-)1,360	(-)1,382	(-)1,312	(-)1,297	(-)736

Source: Compiled from Balance of Payments Statistics from data of Ministry of Finance and Bank of Japan

Sub-Committee on Services

- Could address several implementation issues – Expeditious issue of ‘Visas’ for IT and other service providers, clarification of ‘technology services’ in DTAA, Ratification of Totalisation Agreement.
- In built agenda – Nurses and health care workers, mutual recognition agreements among professional bodies.
- Need for Brand Promotion of Indian IT in Japan.

Investment

- Mixed Trends – no big investment as was seen earlier in respect of Daiichi Sankyo or NTT Docomo.
- No. of companies have risen from 627 in 2009 to 1209 in 2014, residents doubled.
- Largely still in Transportation, Pharma, Services, Electrical equipment, Metals.

Investment (Contd.)

- Could see further rise with many infrastructure projects and Japan industrial townships on the anvil.
- But will they improve India's export competitiveness including for exports to Japan?
- Setting up of the Japan industrial townships or even new SEZs near port based locations – could create large export capacities both in traditional export sectors of India and in newer products?

Cooperation

1. Chapter 13 of CEPA also provides for cooperation in twelve areas – Trade and Investment promotion, textiles, health, energy, metallurgy, ICT, SMEs, etc.
2. Important that Trade, Investment and Cooperation aspects of CEPA drive one another.
3. Need to activate this in CEPA context – Sub Committee on Cooperation.

Possible areas of Cooperation

- I. *Trade Facilitation
 - * Trade Related Infrastructure
 - * Improvement in standards and regulatory compliance
 - * Integration of Indian IT and Japanese manufacturing
 - * Improve competitiveness and skills
2. Matching potential investors with counterparts.

Benefits of such an approach

1. Will help create a more positive perception nationally of CEPA and FTAs in general
2. Will provide India more leverage and space to develop a positive strategy to deal with mega FTAs in the region.
3. It will also be a win for Japan – since these will give more opportunities for trade and investment – Optimise complementarities.



- **THANK YOU**