

Forging a Comprehensive Economic Partnership between Japan and India: Prospects and Challenges

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1. Introduction

- What is the potential for Japan-India economic partnership/cooperation?
- What type of partnership/cooperation?
- How can Japan and India maximize gains from their complementary trade and FDI relations?
- What sort of Comprehensive Economic Partnership Agreement (CEPA) should the two countries achieve?
- Going beyond bilateral partnership, how can Japan and India work together in the regional and global context?

2. Historical Relationship

- **Cultural ties**
 - 6th century A.D. : Buddhism was introduced in Japan through Indian priest
- **Japan's economic relations with India**
 - 1958: Japan extended its first yen loan to India
 - 1960-1980: bilateral relationship relatively inactive
 - Aug. 2000: agreed for a Japan-India Global Partnership
- **“Japan-India Partnership in a New Asian Era,” 2005**
 - expanding traditional bilateral relations that promote security, stability, prosperity in Asia while advancing international peace, equitable development and shared commitment to work together to promote the vision of a united East Asian community

3. Sharing Mutual Complementarity

- **Japan as the 2nd largest economy in the world**
 - Outward orientation, technological progress
 - Continuous globalization of Japanese firms
 - But Japan faces a number of challenges to sustained growth—deflation, public debt, widening income disparities and rapidly ageing population
- **India's dynamic economic growth since the 1990s**
 - Economic reforms and open-door policy
 - India will continue to grow fast (by more than 5% year) for the next 30 years.
 - Its economy will be larger than that of Japan by 2032 and close to US GDP by 2050 (*Wilson et al, 2003*)

3. Sharing Mutual Complementarity

Japan-India Complementarity

- Japan's comparative advantage include: (i) capital, (ii) technological skills, and (iii) new product development
 - Japan is world's 2nd-biggest spender on technology after US.
- India's strength include: (i) high-quality, abundant, young, English-speaking labor force, (ii) large market size, and (iii) knowledge-based services.
 - Given its manpower, Indian companies in business process outsourcing would meet needs of Japanese companies.
- Differences in population dynamics between Japan and India
 - Japan is an ageing society and India has a large younger population base, making these economies complementary

4. Trade and Production Linkage

Japan-India Trade

- Japan-India trade is small, relative to trade with respective trading partners
- Japan-India trade patterns
 - India's major exports to Japan are gems & jewelry, marine products, iron ore, petroleum, cotton yarn, fabrics
 - Japan's major exports are machinery (transport equipment, machine tool, etc.), electronic goods, iron and steel products, organic chemicals, plastic materials
 - Share of intermediate inputs and parts & components in India's total exports is limited
- This suggests a large potential for India's integration with East Asia through participation in East Asia's supply chains and production networks. A Japan-India comprehensive FTA can facilitate this process

4. Trade and Production Linkage

Table 1. Annual trade growth in India and Japan

	India (%)		Japan (%)	
	1995-2000	2001-2005	1995-2000	2001-2005
Exports	10.0	15.5	5.5	5.9
Imports	7.0	18.5	5.4	3.5

Table 2. Share of export & import in GDP (%)

	India (%)		Japan (%)	
	1995	2005	1995	2005
Exports	11.0	20.5	9.2	13.4
Imports	12.2	24.2	7.8	11.4

- **Significant increase for India**

Trade and Production Linkage

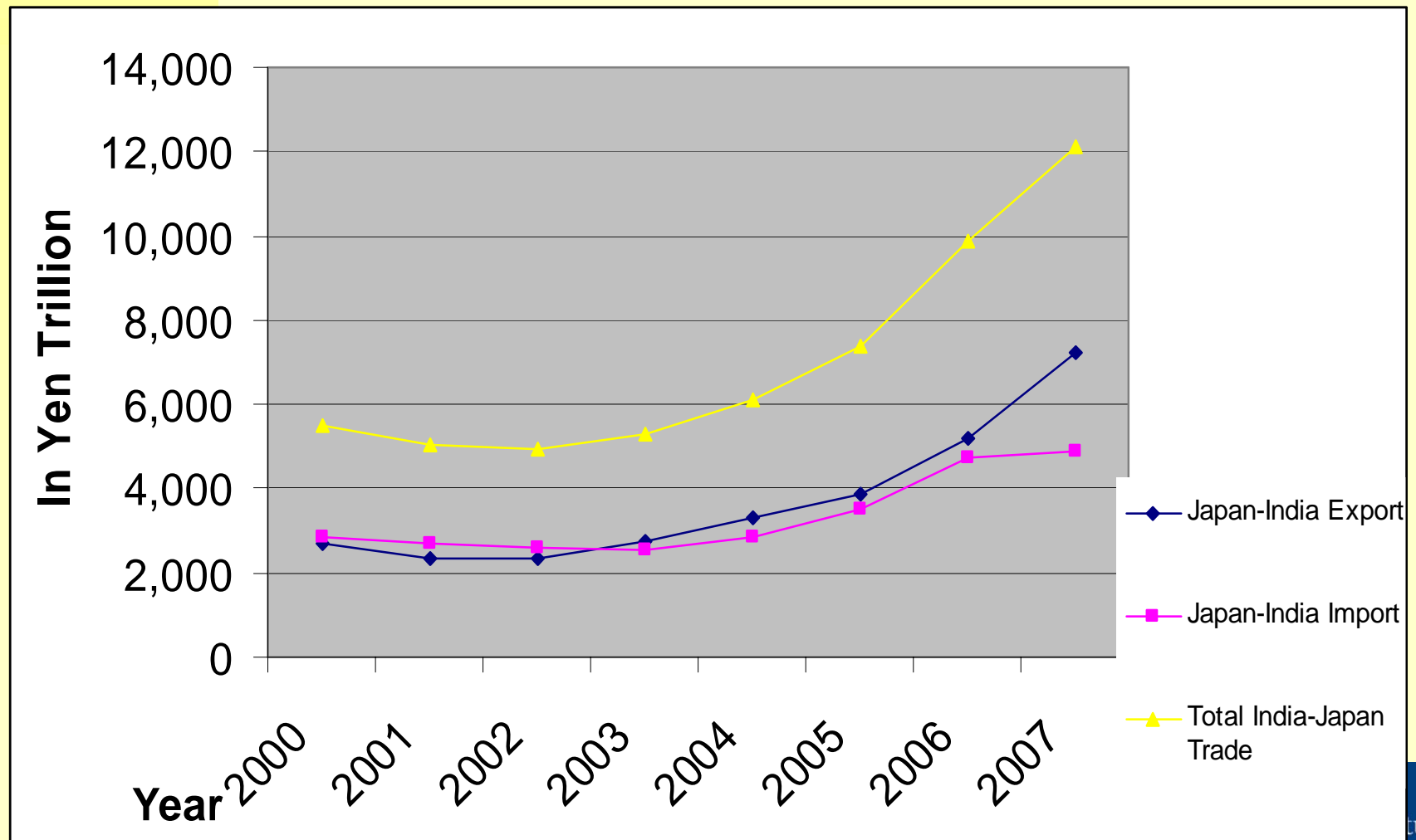
Japan's Trade with Major Economies (in Million Yen)

	1990			2002			2007		
	Import	Export	Total Trade	Import	Export	Total Trade	Import	Export	Total Trade
India	301	247	548	262	234	496	491	723	1,214
China+HK	2,044	6,204	4,816	7,906	8,156	1,602	15,206	17,411	32,617
ASEAN 6	4,536	6,289	10,285	6,828	8,679	15,507	10,667	12,755	23,422
NIES	3,236	6,640	9,876	3,814	10,030	13,844	5,714	16,230	21,945
US	7,586	13,057	20,643	7,237	14,873	22,111	8,349	16,896	25,245
EU	5,071	7,734	12,805	5,238	7,419	12,657	7,009	10,900	17,909
World	33,855	41,457	75,312	42,228	52,109	94,336	73,136	73,136	157,067

- The share of Japanese import from and export to India, out of Japan's total import and export, is very small compared with other countries over the last five years (2002-2007)

Japan's Trade with India

2000-2007



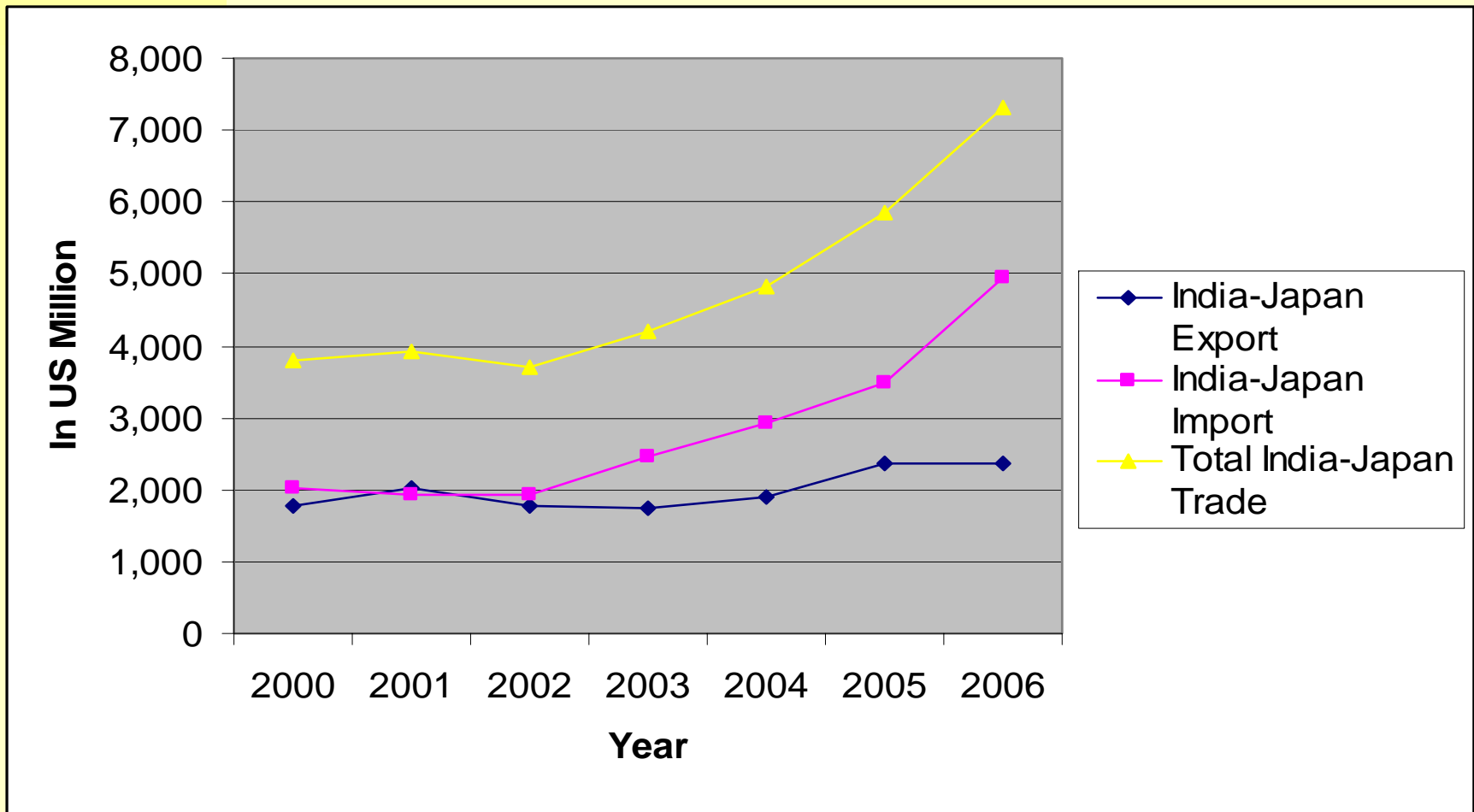
Trade and Production Linkage

India's Trade with Major Economies (in \$ billion)

	1990			2005		
	Import	Export	Total Trade	Import	Export	Total Trade
Japan	1.70	1.80	3.5	3.60	2.90	6.50
China +HK	0.10	0.20	0.3	10.00	11.00	21.00
ASEAN 6	1.30	1.00	2.3	10.20	6.80	17.00
NIES	0.70	0.40	1.1	6.20	2.80	9.00
US	2.40	2.90	5.3	7.00	17.10	24.10
EU	7.60	5.20	12.8	25.20	21.20	46.40
Rest of World	8.7	6.50	15.2	72.7	35.8	108.5

- India's trade with Japan doubled from 1990 to 2005, but is still low compared with India's major trading partners such as EU, US, China and ASEAN

India's Trade with Japan 2000-2006



4. Trade and Production Linkage

Japan-India Trade Potential

- Large trade inefficiency due to ‘behind the border’ constraints (Kalirajan and Bhattacharya, 2008)
 - At aggregate level India achieved 60% of its potential, while Japan achieved 64 %.
 - Inefficiency index varied across 10 commodity groups, ranging 36-70% for India and 43-74% for Japan
- Potential impact of a Japan-India FTA
 - Japan’s export to India would rise by 2.5 percent although India’s exports to Japan would expand by only 0.3 percent.
 - As Japan’s average tariff is quite low compared to that of India, Japan will benefit much more than India.
 - So a proposed FTA, if only tariff-based, would not have significant impact, particularly on India.
 - It should involve non-tariff issues

5. FDI, Financing and ODA

Japan-India FDI

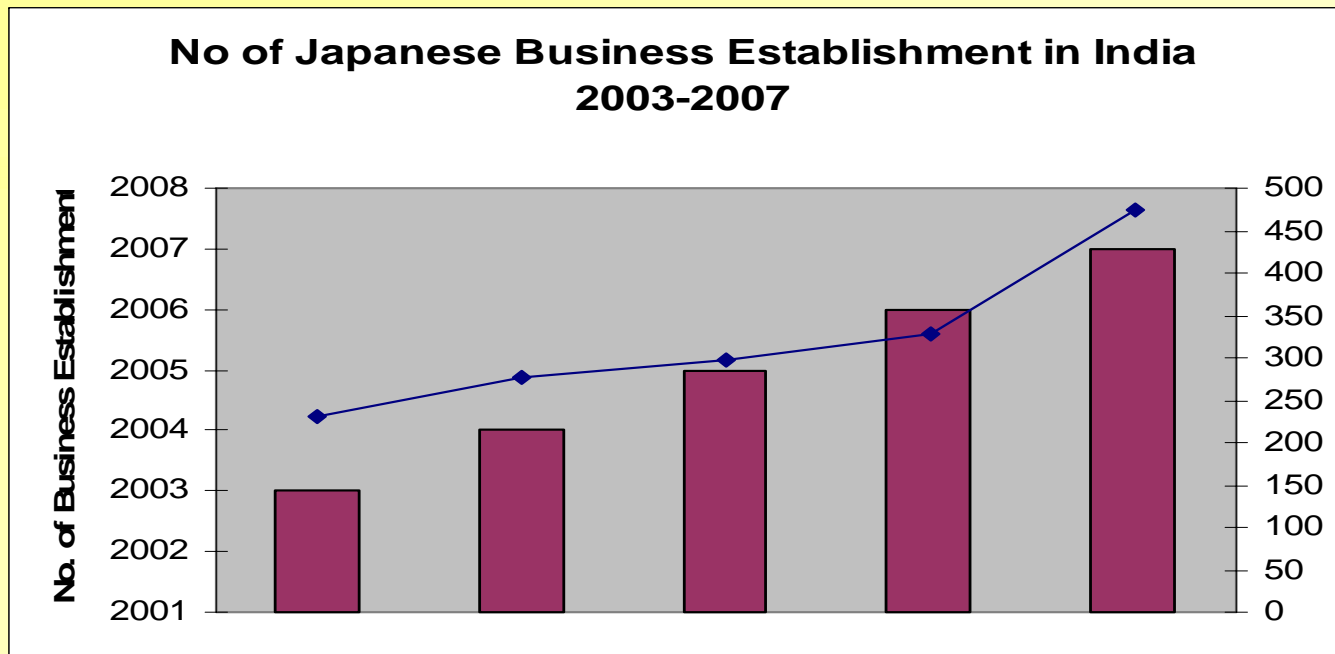
- Japan's FDI in India is limited
 - Japan invests largely in the US, Europe and East Asia
 - India attracts FDI from Europe, US and non-Japan East Asia
 - Japan's FDI is in export-oriented industries
- Potential for greater FDI
 - Global investors view India as the world's business hub with longer-term market potential
 - India's FDI policies are more attractive than China's in many ways, through India lacks marketing/soft skills to translate these into actual investments.
 - India is rated as the third most favored FDI destination, next only to China and United States by a recent confidence survey done by AT Kearney

5. FDI, Financing and ODA

Distribution of Cumulative FDI Outflows and Inflows for India

India's FDI Outflows to or Inflows from:	Cumulative FDI Outflows		Cumulative FDI Inflows	
	(1996–2006)		(1991–2005)	
	Million US\$	(%)	Million US\$	(%)
	Japan	3	0	2,590
US	1507	13.1	6,112	13.2
EU-15	1,432	12.4	9,337	20.2
Asian NIEs-4	873	7.6	2,550	5.5
ASEAN 10	790	6.9	1,584	3.4
ROW	6901	60	24,104	52.1
World Total	11506	100	46,277	100

Japan's FDI in India



- Japanese Joint Ventures in India are contributing to India's export to third countries. Examples include Maruti Suzuki and Honda Group (Hero Honda and HMSI).
- There has been a qualitative change in the strategies of Japanese companies, and that some leading Japanese companies have started considering India as a future export hub of their products. These trends are expected to facilitate India's export in the future.

5. FDI, Financing and ODA

Japanese Overseas Development Assistance

- India is Japan's top recipient of ODA
- Focus of Japan's ODA to India :
 - development of physical infrastructure, mainly in the areas of power and transportation
 - poverty reduction through agricultural and rural development;
 - environmental protection through afforestation and improvement of water quality;
 - improvements in health and medical care

6. Japan-India Bilateral Economic Partnership

Japan-India Comprehensive Economic Partnership

- Japan is advancing negotiations on a traditional FTA with India to eliminate tariffs
- A (Comprehensive) Economic Partnership Agreement (EPA/CEPA) may cover: (i) trade in goods, (ii) trade in services, (iii) measures for trade promotion, (iv) promotion, facilitation and liberalization of investment flows, and (v) measures for promoting economic cooperation in identified sectors.
- “Japan-India Special Economic Partnership” (2006):
 - the development of infrastructure and promotion of manufacturing, trade and investment;
 - human resource development for promotion of manufacturing;
 - science and technology initiative;
 - people-to-people exchanges; and
 - regional and multilateral cooperation

6. Japan-India Bilateral Economic Partnership

Barriers to Deep Economic Cooperation

- Poor governance and red tape: the differences in business practices, and environment especially in the lack of clarity in the policy guidelines
- Weak infrastructure: overall infrastructure facilities are still lacking in India. Power facilities are considered below average.
- Rigid labor law: revision of the Labor Act
- Language barrier: Language is a major barrier and restricts easy interaction between business representatives of Japan and India

Differing Levels of Openness and Market-Orientation

	Ave. Import Tariff Rates ^{/a} (Manufactures, in %)	Time for Import (No. of days)	Time to Start a Business (No. of days)
Japan	3.5	11	23
Korea	7.2	12	22
China	10.4	22	35
India	15.7	41	35
Australia	4.2	12	2
New Zealand	4.2	13	12
ASEAN	9.5	32	64 ^{/b}

^{/a} MFN rate; data as of 2005 except for Korea (2004) and Cambodia (2003).

^{/b} Average for ASEAN, excluding Lao PDR is 50.

Source: Compiled from UNCTAD and World Bank.

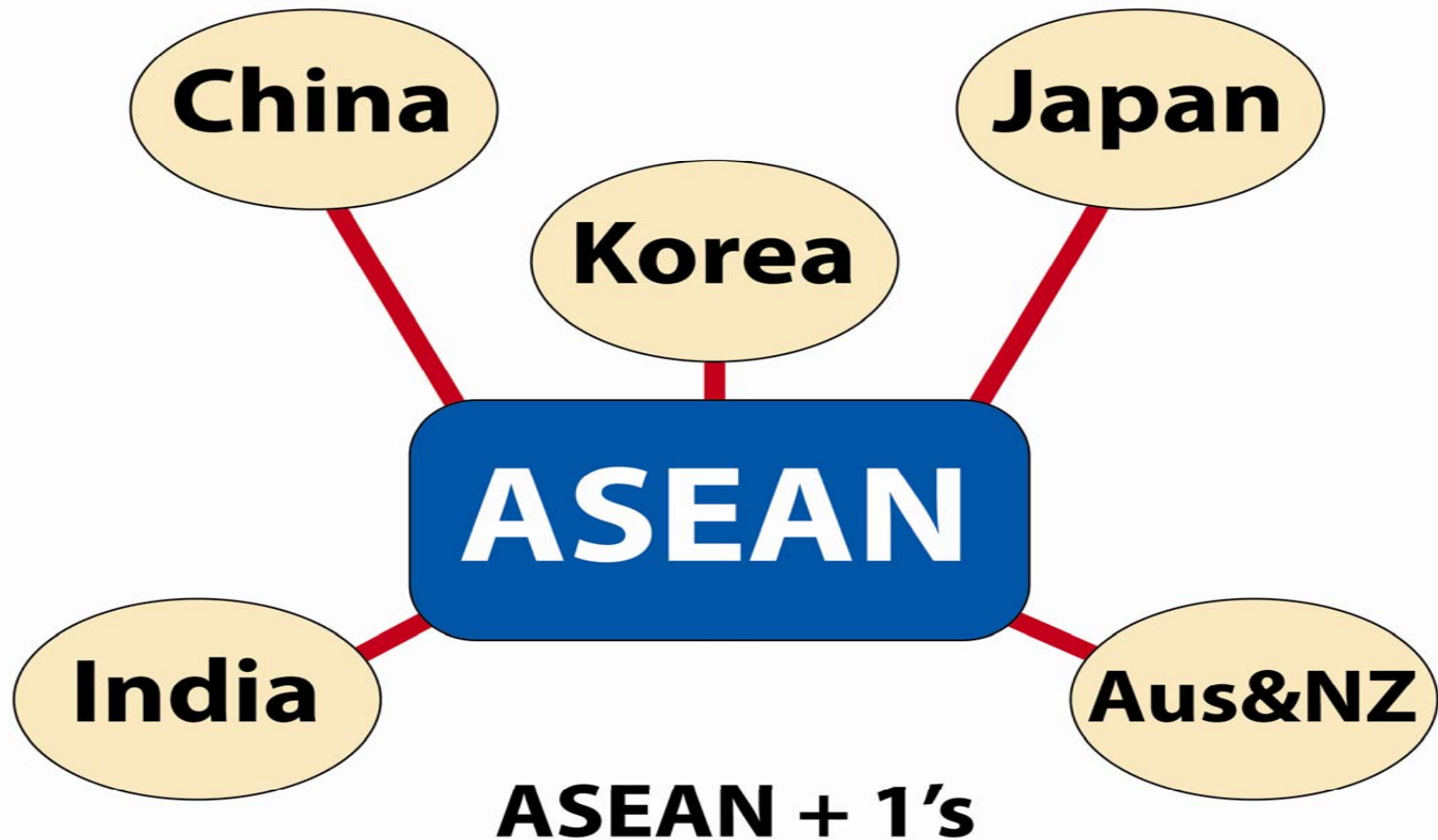


7. Regional and Global Dimensions of Japan-India Partnership

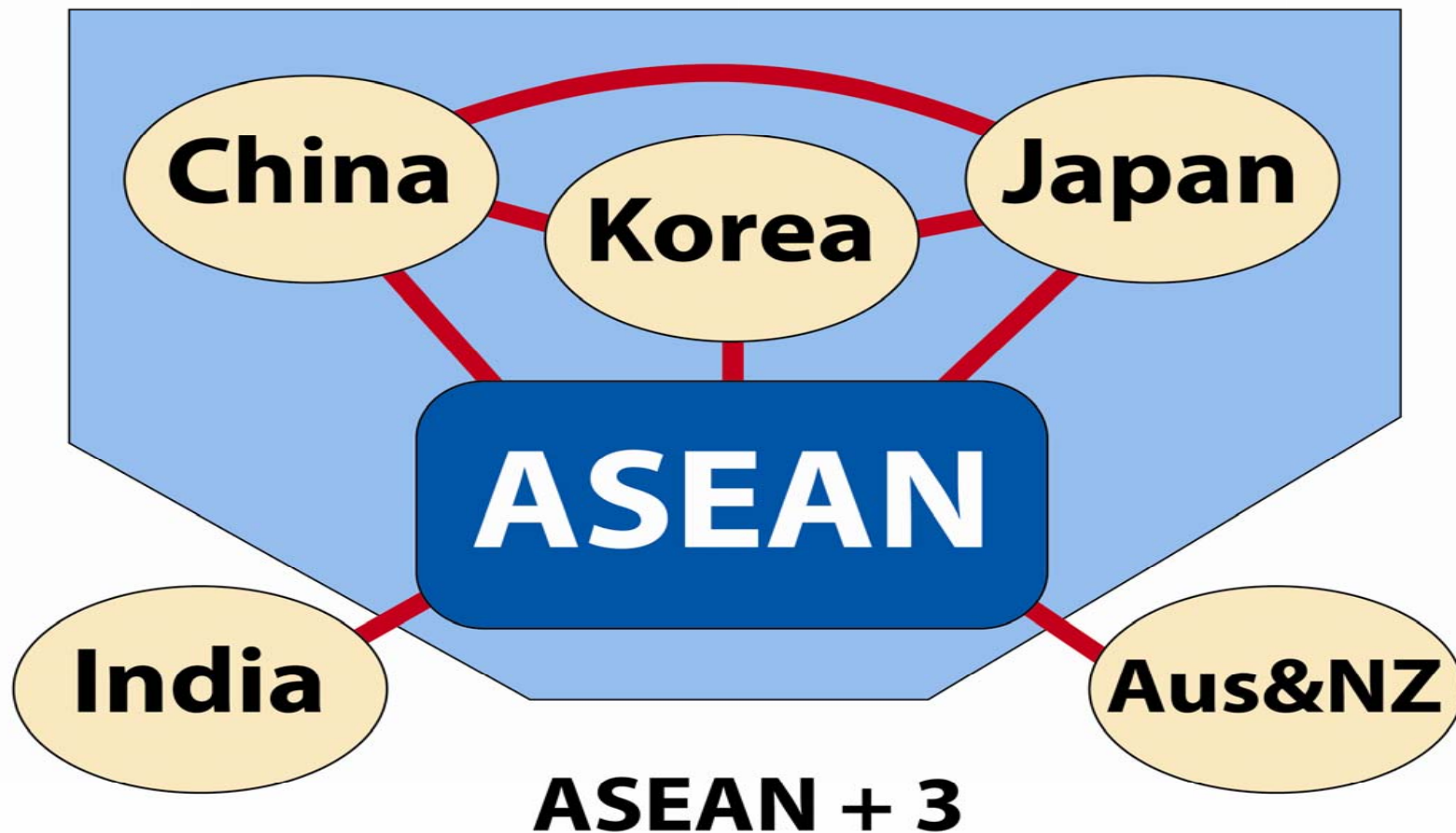
Regional Cooperation

- India is beginning to join East Asia's production networks through FTAs with Thailand, ASEAN, etc.
- Japan-India FTA is expected to provide a basic ground for strengthening regional economic cooperation in East Asia, particularly in forming an East Asia-wide FTA and EAS cooperation
- India sees this growing engagement with East Asia as a building block for an Asian economic community
- Japan-India economic partnership can facilitate and enhance cross-subregional cooperation between East Asia and South Asia
- India's role in strengthening South Asian regional cooperation, through e.g., SAARC is vital

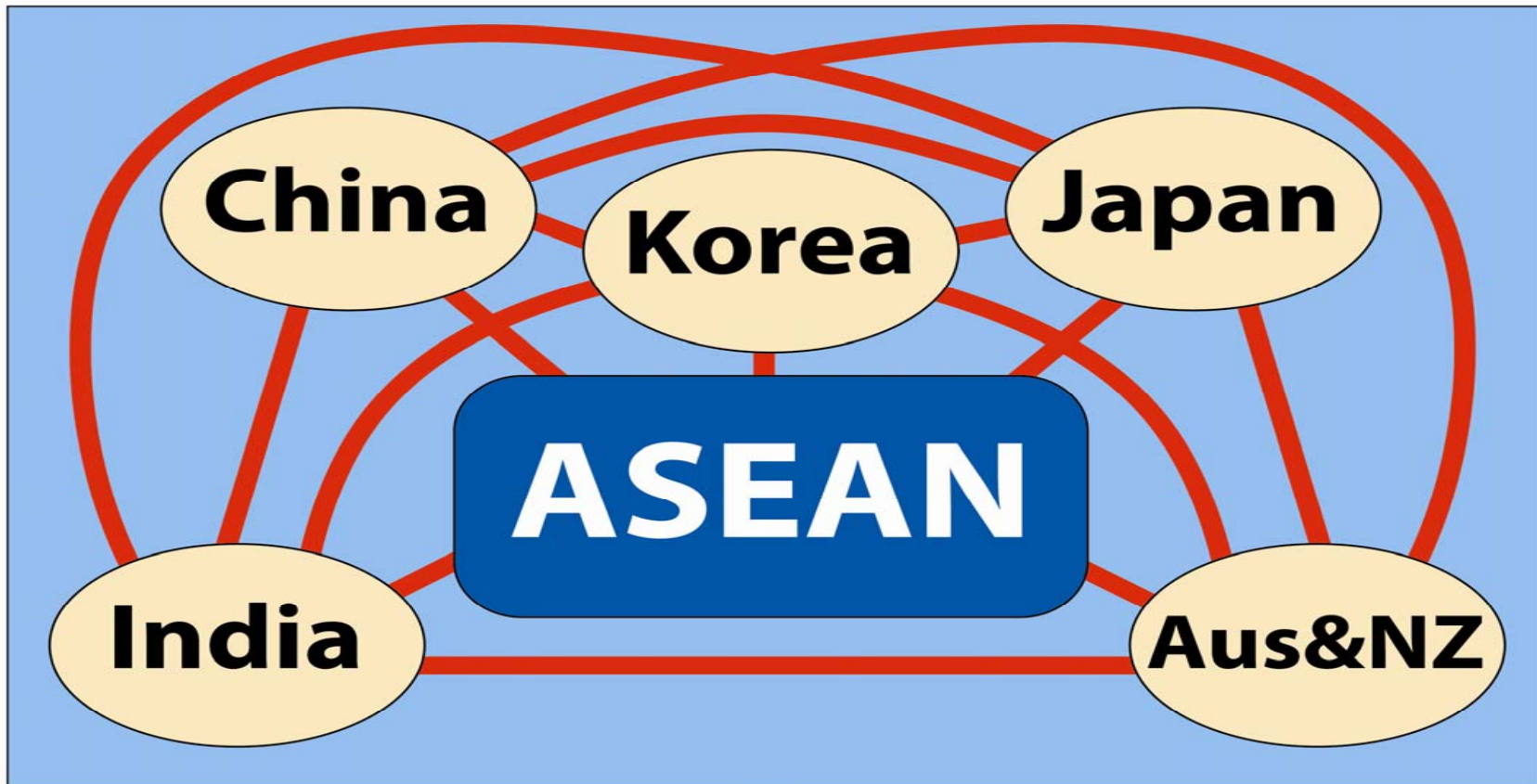
ASEAN + 1 Cooperation



ASEAN + 3 Cooperation



East Asia Summit (ASEAN + 6) Cooperation



ASEAN + 6

7. Regional and Global Dimensions of Japan-India Partnership

Global Cooperation

- Japan, as an OECD and G8 member, can play a key role in involving a major emerging economy like India to address key global issues, such as, (i) environmental protection and climate change, (ii) food security, (iii) energy security, and (iv) global governance.
- Strong Japan-India partnership can facilitate speedy formulation and implementation of policies to meet the key global challenges, and raise the voice of Asia in global forums.
- Japanese technologies can contribute to India's (i) energy efficiency and security, (ii) environmental improvement, (iii) mitigation of climate change, and (iv) sustainable growth and development

8. Future Prospect

- **Maximize Economic Complementarities**
 - Factor endowment, demography, capabilities and specializations
- **Enhance Private Sector Investment**
 - Big potential in India's growing integration with East Asia, a shift to trade-oriented manufacturing, participation in East Asia's production networks and supply chains
 - Six core areas of investment opportunity for Japanese firms in India: automobiles and motorcycles; infrastructure building; raw materials (chemical and steel); biotechnology, food processing and services (hotel, tourism, retail and transportation).

8. Future Prospect

- **Meeting Socio-cultural Challenges**
 - Japan facing the challenge of aging population and shrinking market.
 - Setting up of a Japan industrial and residential village in India with health care and care giving services
- **Comprehensive Economic Partnership and Cooperation**
 - Japan-India partnership should go beyond the liberalization of goods trade
 - It should include: Singapore issues (trade facilitation, investment, competition policy and procurement), and other types of cooperation (such as SME promotion, IT development, science/engineering technology, energy, environmental protection, and people-to-people exchanges)

Thank you

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