POST COVID-19 PROSPECTS FOR INDIA-JAPAN ECONOMIC PARTNERSHIP

- Nisha Taneja
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Table of Contents

List of Tables

List of Figures

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Abstract

Comprehensive economic engagement has been a core element of the *Strategic and Global Partnership between India and Japan* initiated in 2006. Japan is one of India's major trading partners and the 3rd largest investor in the Indian economy. Importantly, Japan is also India's largest bilateral developmental assistance donor, particularly for infrastructure development projects. However, in real terms bilateral trade and investment relations have remained below potential despite the economic complementarities.

With the current COVID-19 pandemic generating severe challenges for the global economy, there is need for both India and Japan to enlist each other as an important partner in their respective economic recovery strategies and further strengthen bilateral economic engagement.

In this context, this study examines the recent trends in India-Japan economic relations covering bilateral trade, investment and ODA; highlights the synergies between Japan's COVID-19 related measures to support its companies to diversify their production sites and supply chains and the reform measures that India is undertaking to facilitate greater integration in regional and global supply chains in the Indo-Pacific region. The paper also underlines policy measures that will enable mutually beneficial economic collaboration between India and Japan to gain traction in post-COVID times.

Abbreviations

ASEAN	Association of Southeast Asian Nations
CBIC	Chennai-Bangalore Industrial Corridor
CEPA	Comprehensive Economic Partnership Agreement
CTPM	Contingent Trade Protective Measures
DBR	Doing Business Report
DMIC	Delhi-Mumbai Industrial Corridor
EMDE	Emerging Market and Developing Economies
EXP	Export-related measures
FDI	Foreign Direct Investment
FIEO	Federation of Indian Export Organisations
GDP	Gross Domestic Product
GIC	Global In-house Centres
GVC	Global Value Chains
HS	Harmonised System
IMF	International Monetary Fund
IMT	India-Myanmar-Thailand
INSP	Pre-shipment Inspection
IT	Information Technology
JBIC	Japan Bank of International Co-operation
JETRO	Japan External Trade Organisation
JICA	Japan International Cooperation Agency
JIM	Japan-India institute of Manufacturing

JIT	Japan Industrial Township
MAHSR	Mumbai-Ahmedabad High-Speed Rail
MPEDA	Marine Products Export Development Authority
METI	Ministry of Economy, Trade and Industry
NER	North East Region
NTM	Non- tariff Measures
ODA	Overseas Development Assistance
PC	Price Control measures
QC	Quality Control Measures
RCEP	Regional Comprehensive Economic Partnership
SME	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TCS	Tata Consultancy Services
WTO	World Trade Organization

1. Introduction

After the end of the Second World War, India achieved independence from British colonialism and when the allied occupation of Japan ended, diplomatic relations between the two countries were established in 1952. The role of Indian Justice Radha Binod Pal in the International Military Tribunal for the Far East, India's invitation to Japan to participate at the New Delhi Asian Games as an independent nation in 1951 and Japan's participation in the first Afro-Asian Conference in Bandung in 1955 laid the ground for a promising future.

However, relations between the two countries cooled considerably, with the advent of the Cold War, as Japan and India set out on quite different paths. Japan's post-war position towards Asia was derived from the way Tokyo was firmly incorporated into the United States' global strategy, within which it took on the role of America's ally. Indian foreign policy, on the other hand, was focused on an entirely different perspective in international relations – non-alignment. This important political difference conditioned the responses of both India and Japan to international issues and influenced how they viewed each other.

The end of the Cold War ended the strategic divide between the two nations and there appeared to be a convergence of interest in maintaining peace and stability in Asia. The beginning of the 1990s, therefore, saw India and Japan resume high-level interaction to establish close ties with each other. The stagnancy that had been observed for many years in Indo-Japanese economic relationship was also broken in the early 1990s as India undertook major economic reforms and unveiled the "Look East" policy.[1]

India's nuclear explosions in May 1998 did see Japan taking an aggressive stand on the issue of nuclear proliferation. Nonetheless, the diplomatic impasse was short and ended with Japanese Prime Minister Yoshiro Mori's visit to India in August 2000. The two countries announced a *Global Partnership between Japan and India in the 21st Century* and Japan lifted all nuclear-related economic sanctions on India on October 26, 2001.The *Strategic and Global Partnership between India and Japan* was established in 2006 and since then a multitude of Joint Statements and dialogues have added substantive layers to this partnership. Recently in December 2015, Prime Minister Narendra Modi and Prime Minister Shinzo Abe unveiled the *India and Japan Vision 2025: Special Strategic and Global Partnership Working Together for Peace and Prosperity of the Indo-Pacific Region and the World,* which reflects a broad convergence of the long-term political, economic and strategic goals of the two countries.

[1] Joshi, S., "The Geopolitical Context of Changing Japan-India Relations". *UNISCI Discussion Papers*, No 32, May 2013. https://www.ucm.es/data/cont/media/www/pag-72489/UNISCIDP32-5SANJANA.pdf

Comprehensive economic engagement has been a core element of the India-Japan strategic and global partnership. In 2011, the two countries signed the *Comprehensive Economic Partnership Agreement* (CEPA) and India-Japan bilateral trade in 2018-19 was close to US$ 18 billion. Japan is also the 3rd largest investor in the Indian economy. Another important aspect of the upward trend in India-Japan economic relations has been in Japan's overseas development assistance (ODA) particularly since the beginning of the new millennium. India has been the top recipient of yen loans from Japan since 2003 particularly for infrastructure development projects. However, in real terms bilateral trade and investment relations have remained below potential despite the economic complementarities.

With the current COVID-19 pandemic generating severe challenges for the global economy, there is need for both India and Japan to enlist each other as an important partner in their respective economic recovery strategies and further strengthen bilateral economic engagement. In this context, this study examines the recent trends in India-Japan economic relations covering bilateral trade, investment and ODA; highlights the synergies between Japan's COVID-19 related measures to support its companies to diversify their production sites and supply chains and reform measures that India is undertaking to facilitate greater integration in regional and global supply chains in the Indo-Pacific region. The paper also underlines policy measures that will enable mutually beneficial economic collaboration between India and Japan to gain traction in post-COVID times.

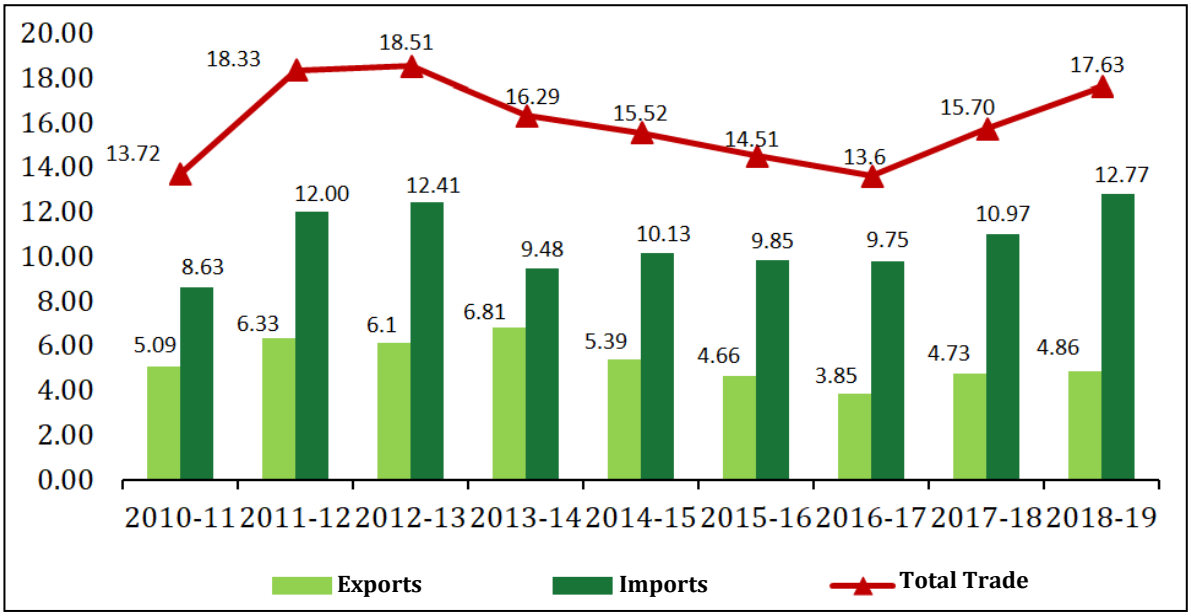
2. Current Status of India-Japan Economic Relations

2.1 Trade

India-Japan bilateral trade in 2018-19 was close to US$ 18 billion (Figure 1). Exports from Japan to India during this period were US$ 12.77 billion and imports were US$ 4.86 billion. Japan's exports to India were 2.48 percent of India's total imports and India's exports to Japan were 1.47 percent of India's total exports. India's primary exports to Japan are petroleum products, chemicals, elements, compounds, non-metallic mineral ware, fish and fish preparations, metalliferous ores and scrap, clothing and accessories, iron and steel products, textile yarn, fabrics and machinery etc. India's primary imports from Japan are machinery, electrical machinery, iron and steel products, plastic materials, non-ferrous metals, parts of motor vehicles, organic chemicals, manufactures of metals, etc.[2]

[2] "India-Japan Economic Relations". Embassy of India, Japan. https://www.indembassy-tokyo.gov.in/india_japan_economic_relations.html

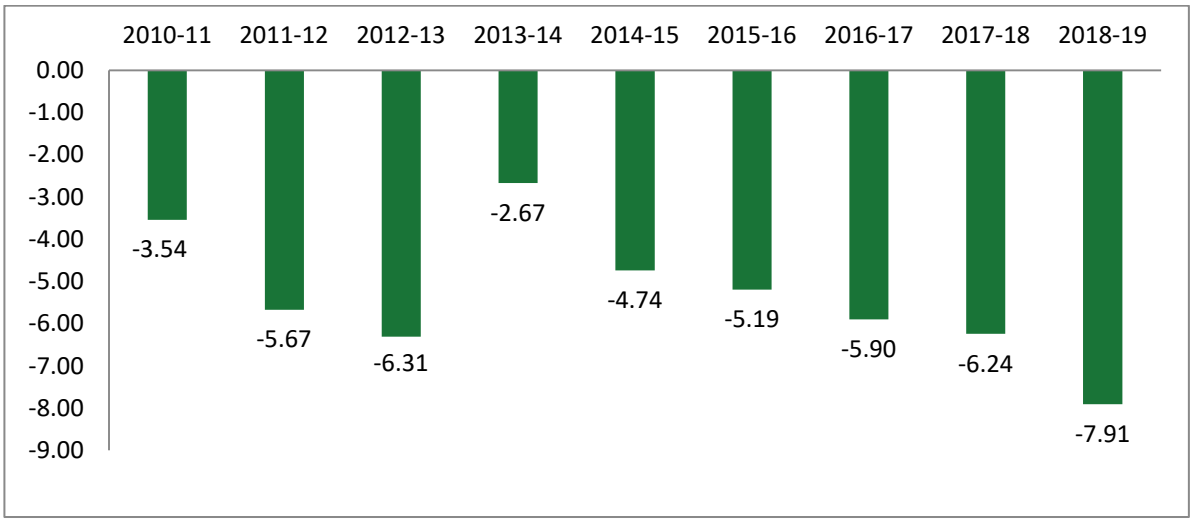
Figure 1: India's Bilateral Trade with Japan (US$ billion)



Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

In 2011 the two countries signed the Comprehensive Economic Partnership Agreement (CEPA). Although the CEPA utilisation rate has been moderate, the agreement has had a notable impact on trade between India and Japan, which has increased from US$ 10.4 billion in 2010 (before the coming into effect of the CEPA) to US$ 17.6 billion in FY 2018-19, an increase of over 69 percent. However, the trade balance has continued to remain in Japan's favor and India's trade deficit with Japan after CEPA has widened from US$ 3.54 billion in 2010-11 to US$ 7.91 billion in 2018-19 (Figure 2).

Figure 2: India's Trade Deficit with Japan (US$ billion)



Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

A comparison of commodities traded between the two countries in 2010-11 and 2018-19 enables understanding of whether there has been a change in the structure of trade after the signing of the CEPA. In 2010-11, India's top three exports to Japan at the HS-2 classification of items included mineral fuels and oils, residues and waste from the food industry, iron and steel. In 2018-19 while mineral fuels and oils remain the top export items the share of organic chemicals and precious and semi-precious stones has gone up significantly (Table 1).

On the imports side, India's top three imports from Japan in 2010-11 have remained the same in 2018-19 (Table 2). These include nuclear reactors, boilers, machinery and mechanical appliances; electrical machinery; and iron and steel. In 2010-11 these three import categories accounted for about 55 percent of India's imports; their share in 2018-19 fell to 48 percent. A significant increase in the imports of copper and its articles from Japan is seen in 2018-19 - from 0.3 percent in 2010-11 to 2.87 percent in 2018-19.

Table 1: India's Top 10 Exports to Japan at HS-2 (US$ million)

Hs Code	Commodity Description	2010-11	2018-19
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1,987.34	541.54
29	Organic chemicals	182.91	526.73
71	Natural or cultured pearls, precious or semiprecious stones, premetals, clad and articles thereof; coin	279.91	434.06
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	104	416.68
3	Fish and crustaceans, molluscs and other aquatic invertebrates	301.8	404.55
72	Iron and steel	373.52	235.59
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof		235.05
62	Articles of apparel and clothing accessories not knitted or crocheted	131.3	184.91
76	Aluminium and articles thereof		177.5
39	Plastic and articles thereof		140.46
23	Residues and waste from the food industries; prepared animal fodder	466.96	
26	Ores, slag and ash	174.4	
89	Ships, boats and floating structures	102.1	

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

Table 2: India's Top 10 Imports from Japan at HS-2 (US$ million)

HS Code	Commodity Description	2010-11	2018-19
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2,661.17	3,413.46
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	1,062.01	1,408.09
72	Iron and steel	1,049.42	1,259.14
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	472.35	491.61
90	Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. And apparatus parts and accessories thereof	457.14	754.18
29	Organic chemicals	424.79	940.53
73	Articles of iron or steel	315.96	425.73
39	Plastic and articles thereof	279.9	891.82
40	Rubber and articles thereof	244.8	287.27
98	Project goods; some special uses	243.56	
74	Copper and articles thereof		493.75

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

A more insightful inference can be drawn if we classify traded items into raw materials, intermediate goods, capital goods and consumer goods. As seen in Table 3 exports of raw materials from India to Japan have come down by 2 percent but the big decrease has been in consumer goods with the percent share coming down by 17.6 percent between 2010-11 and 2018-19. In the same period the share of intermediate goods in India's exports to Japan has increased by 6.6 percent and the share of capital goods has increased by 13 percent. Intermediate goods and capital goods continue to comprise the bulk of India's imports from Japan and their combined share has increased marginally from 87 percent in 2010-11 to 89 percent in 2018-19.

Table 3: Product Composition of India's Trade with Japan (%)

Category	India's Exports		India's Imports	
	2010-11	2018-19	2010-11	2018-19
Raw Materials	11.8	9.8	0.5	0.6
Intermediate Goods	41.6	48.2	33.4	43.5
Consumer Goods	40.8	23.2	12	9.3
Capital Goods	5.8	18.8	54.1	46.6

Source: UN ITC-WITS database

Moreover, in merchandise trade there has been no significant change in market shares after the CEPA. In 2018-19 Japan's share in India's imports was 2.48 percent while India's share in Japan's imports was 0.7 percent. Indian exports of pharmaceuticals, marine products and apparel have benefited from lower tariff rates under the CEPA, but still remain below potential. As stated in the *Foreign Trade Policy Statement* 2015-20 released by the India's Ministry of Commerce and Industry, "the Japanese market has not seen growth in the product areas of India's interest, Indian business entities are facing problems in market access. These problems can be briefly said to be arising out of language constraints faced by Indian companies in Japan, highly demanding product and service standards, regulations which require business modalities making market access a costly venture, and a relative lack of intensive effort on the part of Indian business."[3]

According to the Federation of Indian Export Organisations (FIEO) the "untapped export potential for Japan is more than US$ 3 billion" in sectors such as gems and jewellry, pharmaceuticals, marine products, rice, bovine meat, knitted t-shirts etc.[4] For example, Article 54 of the CEPA specifically deals with co-operation in generic medicines between the two countries and provides, inter alia, for national treatment in respect of registration and other approvals required to be completed within a reasonable period of time. However, Japan ranked 25th among destinations for India's pharma exports in 2018-19 while the United States topped the list.[5]In the context of challenges posed to the Indian pharmaceuticals sector in Japan the value of pharmaceutical products exported to Japan was US$ 58.2 million, less than 1 percent of India's total exports in this category.[6]On the other hand, the Japanese market for

3 *Foreign Trade Policy Statement* 2015-20, https://mofpi.nic.in/sites/default/files/2-ftpstatement2015.pdf

4 "Exporters body keen on value added exports to Japan", *The Economic Times*, October 18, 2019, https://economictimes.indiatimes.com/news/economy/foreign-trade/exporters-body-keen-on-value-added-exports-to-japan/articleshow/71655260.cms?from=mdr

5 "Top 10 export destinations for India for Pharma of (sic) last 3 years". https://commerce.gov.in/InnerContent.aspx?Id=506

6 Export Import Data Bank, Department of Commerce, India.

prescription and non-prescription pharmaceuticals in 2018 totaled US$ 87 billion and 23.5 percent of its imports came from the United States.[7]

As of May 2020, Japan has imposed 64 non-tariff measures on imports from India. The top 10 exports from India to Japan face 53 of these 64 NTMs, accounting for almost 83 percent of total NTMs in force (Table 4).

Table 4: NTMs faced by India's Top-10 Exports to Japan

HS-2 Code	Commodity Description	EXP	INSP	QC	SPS	TBT	TOTAL NTM'S	% Share in Total NTMs
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	1	0	0	0	0	1	1.56
29	Organic chemicals	4	0	2	0	1	7	10.94
71	Natural or cultured pearls, precious or semiprecious stones, premetals, clad and articles thereof; coin	1	0	0	0	3	4	6.25
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1	0	0	0	0	1	1.56
3	Fish and crustaceans, molluscs and other aquatic invertebrates	1	1	1	0	1	4	6.25
72	Iron and steel	1	0	0	0	0	1	1.56
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	1	0	0	0	0	1	1.56
62	Articles of apparel and clothing accessories not knitted or crocheted	1	0	0	0	1	2	3.13
76	Aluminium and articles thereof	1	0	0	0	0	1	1.56
39	Plastic and articles thereof	1	0	0	30	0	31	48.44
	Total	13	1	3	30	6	53	82.81

Source: UNCTAD Trains Database on Non-Tariff Measures

[7] "Global Dose: Focus on Japan". https://www.pharmamanufacturing.com/articles/2020/global-dose-focus-on-japan/

**Note: Sanitary and Phytosanitary [SPS], Technical Barriers to Trade [TBT], Pre-shipment inspection [INSP], Contingent trade protective measures [CTPM], Quantity control measures [QC], Price control measures [PC], Export-related measures [EXP]*

***None of the top 10 export items at HS-2 face either Contingent trade protective measures [CTPM] or Price control measures [PC].*

Among India's top export items, plastic articles face the maximum number of sanitary and phytosanitary measures. The next highest NTM's are on organic chemicals. Export of fish and crustaceans, molluscs and other aquatic invertebrates are particularly subjected to several non-tariff measures such as technical barriers to trade, export related measures, pre-shipment inspection and quantity control measures. Frozen shrimp, particularly Black Tiger shrimp is a major item of exports to Japan (nearly 40 percent of India's exports). However, it is only recently and after strenuous efforts by the Marine Products Export Development Authority (MPEDA) that Japan has reduced import inspection sampling frequency for Black Tiger shrimp to 30 percent from the prevailing 100 percent.[8]

Further, services exports to Japan have been less than satisfactory although the 2006 *Report of the India-Japan Joint Study Group* had noted that the services sector is an important part of both the Japanese and Indian economies and that there were significant potential complementarities between the two services sectors.[9] The pattern and composition of Japan's export competitiveness complements India's services import basket in sectors such as financial and insurance services and IP related charges and the same holds in the case of Japan's import basket and trends, which complement India's export strength in areas such as telecommunications, computer and information services.[10] There is also opportunity for two-way flows in segments such as other business services, which feature importantly in both countries' exports (22 percent for Japan and 32 percent for India) as well as imports (22 percent for both).[11] However, Japan's share in India's export market for services has declined from 2.9 percent to 2.5 percent between 2006 and 2015 and Indian IT and IT-enabled services account for less than a 1 percent market share in Japan.

One area that India had high hopes following the CEPA related to the supply of services by independent professionals through "Mode 4". In this context Japan had initiated a "green card" programme in 2017 that provides opportunity for "highly skilled" Indians such as IT professionals to obtain permanent resident status within 24-48 months of

8 "Seafood exports may gain as Japan lifts inspection order for Indian shrimp", *Financial Express*, April 7, 2020, https://www.financialexpress.com/economy/seafood-exports-may-gain-as-japan-lifts-inspection-order-for-indian-shrimp/1920661/

9 "*Report of the India-Japan Joint Study Group*" 2006. https://www.mofa.go.jp/region/asia-paci/india/report0606.pdf

10 Rupa Chanda and Kalpana Tokas, "India-Japan Relations in Services & the India-Japan Comprehensive Economic Partnership Agreement", India Japan Study Centre IIM Bangalore May 2020. https://www.iimb.ac.in/sites/default/files/inline-files/IJSC-rupa_chanda-kalpana_tokas.pdf

11 Ibid.

their residence in Japan.[12]In 2016 India and Japan also operationalised a Social Security Agreement that provides an exemption to Indian professionals and skilled workers on short-term contracts in Japan from making a social security contribution for up to 5 years, thus avoiding double contributions; this enables the Indian worker/professional to remit the accumulated social security contributions made in Japan in case of relocation to India/third country; and allows aggregating residency periods of social security contribution made by the Indian worker / professional in India and Japan to qualify for retirement benefits.

However, in several other categories, the movement of Indian service providers to Japan continues to be hampered by stringent visa requirements and lack of mutual recognition and acceptance of qualification agreements. In particular in the CEPA Japan granted market access to an additional category of "instructors" covering Indian yoga, Indian cuisine, Indian classical music and dance, and English language teachers.[13] The CEPA also stated that "Japan shall enter into negotiations with India under a Sub-Committee to be established under Article 14 regarding the acceptance of Indian qualified nurses and certified care-workers by Japan."[14] Nonetheless, in reality access of Indian workers including health professionals to opportunities in Japan has remained limited.

The market access issue was again underlined recently in December 2019 by Indian Commerce and Industry Minister Piyush Goyal to Japanese Trade and Industry Minister Hiroshi Kajiyama wherein he stated that "market access for India's goods and services with partner countries is very important but despite commitments in CEPA from Japan, market access for India's goods and services remains elusive".[15]

2.2 Investment

Japan is the third largest investor in the Indian economy and cumulative foreign direct investment (FDI) inflows from 2000 untill June 2019 have been around US$ 30.74 billion, accounting for around 7.2 percent of total FDI flows received by India during the period.[16]

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12 "Japan's 'green card' welcome for Indian IT professionals, amid US H1B visa reforms", *LiveMint*, February 8, 2017. https://www.livemint.com/Industry/FsChFlmLAYTQ0SV54UT1eL/Japans-green-card-welcome-for-Indian-IT-professionals-am.html

13 Ram Upendra Das, "India-Japan Comprehensive Economic Partnership Agreement (CEPA) Some Implications for East Asian Economic Regionalism and RCEP", RIS Discussion Paper # 186, January 2014. http://ris.org.in/images/RIS_images/pdf/DP%20186-Dr%20Ram%20Upendra%20Das.pdf

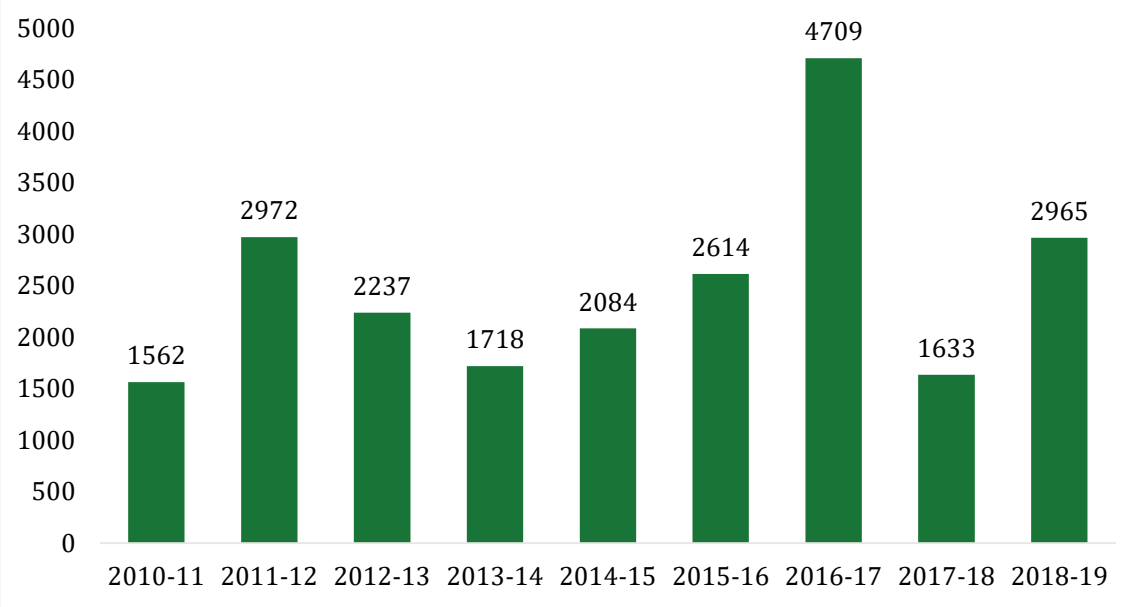
14 *Comprehensive Economic Partnership Agreement between the Republic of India and Japan.* https://commerce.gov.in/writereaddata/pdf_download/IJCEPA_Basic_Agreement.pdf

15 "India, Japan trade ministers discuss review of CEPA ahead of PMs meet", *The Economic Times*, Dec 10, 2019. https://economictimes.indiatimes.com/news/economy/foreign-trade/india-japan-trade-ministers-discuss-review-of-cepa-ahead-of-pms-meet/articleshow/72458688.cms

16 "Fact Sheet on Foreign Direct Investment (FDI) from April, 2000 to March, 2019". https://dipp.gov.in/sites/default/files/FDI_Factsheet_27May2019.pdf

After the CEPA the flows of FDI from Japan have increased significantly from US$ 1.56 billion in 2010-11 to US$ 2.96 billion in 2018-19 (Figure 3). However, India's share in Japan's total outward FDI is only 2 percent as per JETRO statistics. Japanese FDI into India has mainly been in the automobile, electrical equipment, telecommunications, chemical, financial and pharmaceutical sectors.

Figure 3: FDI Equity Inflows from Japan (US$ million)



Source: Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, India

The top 5 sectors that together account for nearly 65 percent of the total FDI inflows from Japan include automobile, drugs and pharmaceuticals, services sector, metallurgical industries, and telecommunications(Table 5).An analysis of sector-wise FDI inflows shows that the FDI from Japan has exhibited an agglomerative trajectory with the automobile sector being the so called "golden sector". TheUS$74 billion automobile industry in India has a 7.1 percent share in India's GDP and has attracted US$22.4 billion FDI between April 2000 and June 2019, accounting for 5.1 percent of the total FDI inflows.[17] FDI from Japan has played a crucial role in the growth of this sector attracting 19.26 percent of total FDI inflows from Japan between January 2000 and December 2018.

[17] https://www.investindia.gov.in/sector/automobile#:~:text=In%20April%2DMarch%202019%2C%20overall,of%20the%20total%20FDI%20inflows.

Table 5: Share of Top Sectors Attracting FDI Equity Inflows from Japan (January 2000 to December 2018)

Sector	% of FDI equity inflows from Japan
Automobile	19.26
Drugs and Pharmaceuticals	15.08
Services Sector*	13.80
Metallurgical Industries	8.74
Telecommunications	7.30

Source: FDI Synopsis Report 2018, Ministry of Commerce and Industry, India

**Note: Services Sector includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, Tech, Testing and Analysis*

Table 6: Prominent FDI Inflows Received from Japan (January 2000 to December 2018)

Indian Company	Collaborator from Japan	Amount in US$ million
Ranbaxy Laboratories	Daiichi Sankyo	3,364.47
JSW Steel	JFE Steel Corporation	1,779.49
Tata Teleservices	NTT Docomo	1,457.66
Suzuki Motor Gujarat	Suzuki Motor Corporation	1,222.35
Reliance Life Insurance	Nippon Life Insurance	881.06
Kotak Mahindra Bank	Sumitomo Mitsui Banking Corporation	506.47

Source: Foreign Direct Investment in India - Annual Issue 2018

Technology-based start-ups in India are also receiving significant attention from Japanese investors. As per the report, *Japanese Investors in India 2019*(DataLabs by Inc42), there are over fifty active Japanese start-up investors in India who have funded 105 Indian start-ups and 12 unicorns across 136+ funding deals.[18] At present, 12 Indian unicorns out of 29 have Japanese investors and the combined valuation of these companies adds up to over US$59 billion.[19] The Japanese investor participation in investment rounds of Indian start-ups has doubled from 19 in 2015 to 34 by 2018 and

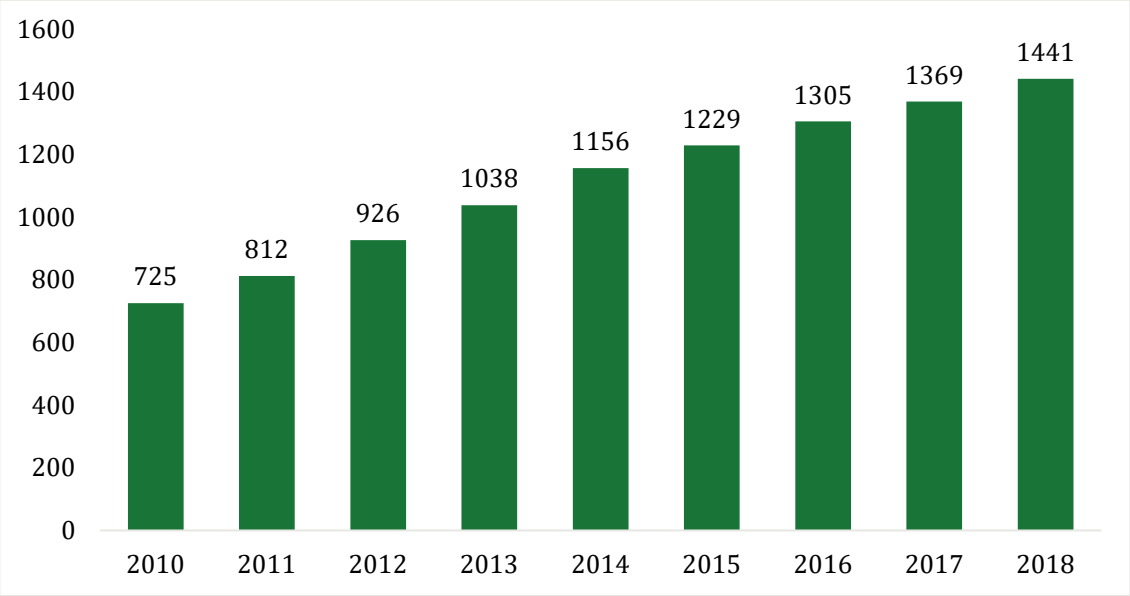
[18] "Japanese VCs, Invest India Highlight Opportunities for Indian Start-ups in Japan". https://inc42.com/buzz/japanese-vcs-invest-india-highlight-opportunities-for-indian-startups-in-japan/

[19] "Start-up funding: Japanese investors are riding high on India consumer story", *Business Today*, November 11, 2019. https://www.businesstoday.in/buzztop/buzztop-corporate/start-up-funding-japanese-investors-are-riding-high-on-india-consumer-story/story/389889.html

the preferred sectors are e-commerce, enterprise tech and transport tech.[20] The most active Japanese participant has been the SoftBank Vision Fund which has invested over US $10 billion in ventures such as Paytm, Ola, OYO, Hike, Delhivery, Policy Bazaar, and FirstCry.

The number of Japanese affiliated companies in India has nearly doubled between 2010 and 2018 (Figure 4). As per the joint survey by the Embassy of Japan in India and the Japan External Trade Organization (JETRO), there were about 1441 Japanese companies registered in India as of October 2018.[21] These 1441 companies have in all 5120 business establishments in India, which include liaison and branch offices in India as well as local subsidiaries.[22]

Figure 4: Number of Japanese Companies in India



Source: Embassy of Japan, India

In October 2019, UNIQLO made its entry into India with the opening of its first store in New Delhi. The larger part of Japanese investment is concentrated in five Indian states, accounting for about 85 percent of the total number of business establishments (Table 7). On the other hand, the Teikoku Databank survey showed that there were 13,685 Japanese firms in China at the end of May 2019[23] and some 11,000 plus companies in the ASEAN region.[24]

20 Ibid.
21 https://www.in.emb-japan.go.jp/Japan-India-Relations/Japanese_Business_Establishments.html
22 Ibid.
23 "Teikoku Databank survey: Some Japanese firms leaving China on uncertain growth outlook", *NNA Business News*, June 3, 2019. https://english.nna.jp/articles/886
24 Teikoku Databank survey 2016.

Table 7: Top 5 Attractive States for Japanese Companies

State	No. of Companies
Haryana	393
Maharashtra	243
Karnataka	224
Tamil Nadu	201
Delhi	162
Total	1223 (around 85%)

Source: Embassy of Japan, India

As compared to Japanese investment in India, the outflow of investment from India into Japan has been meagre. India has invested a cumulative amount of US$ 112 million over the period 2010-19 (Table 8). In FY 2018-19, Indian investment in Japan stood at US$ 2.2 million.

Table 8: India's FDI Outflows to Japan

Year	Values in US$ million
2010-11	1.50
2011-12	9.90
2012-13	19.2
2013-14	34.1
2014-15	10.1
2015-16	26.8
2016-17	5.60
2017-18	3.00
2018-19	2.20

Source: Overseas Investment Data, Reserve Bank of India

More than 50 percent of India's cumulative FDI in Japan has gone into financial, insurance, real estate, business services and community, and the social and personal services sectors (Table 9). Some of the renowned Indian service sector giants such as TCS, Infosys, Sun Pharma and Tech Mahindra have their presence in Japan. The share of manufacturing sector in India's FDI to Japan is 25.5 percent.

Table 9: Share of Top Sectors Attracting FDI Flows from India to Japan (2010-11 to 2018-19)

Sector	Share (%)
Financial, Insurance, Real Estate, and Business Services	29.4
Community, Social and Personal Services	26.7
Manufacturing	25.5
Transport, Storage and Communication Services	11.5
Wholesale, Retail Trade, Restaurants and Hotels	6.8

Source: Overseas Investment Data, Reserve Bank of India

According to recent surveys, India has emerged as one of the most attractive destinations for FDI for Japanese investors. In the 2019 the Japan External Trade Organization (JETRO) *Survey of Business Conditions of Japanese Companies in Asia and Oceania*, over 65 percent of the surveyed Japanese firms in India chose "expansion" as their future approach to future business plan/activities in the next 1 to 2 years.[25] Similarly in the Japan Bank for International Cooperation's (JBIC) 2019 *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies,* India was ranked as the top country for potential business expansions in the Mid-Term (next 3 Years) while China dropped to the second place.[26]

The two countries announced the *India-Japan Investment Promotion Partnership* in 2014 and under this Partnership, Japan has offered to invest JPY 3.5 trillion (US$ 33.5 billion) in India by way of public and private investment and financing over the next five years.

The Indian government has set up a special management team "Japan Plus" comprising four representatives from the Government of India and three representatives from the Government of Japan including one from the Ministry of Economy, Trade and Industry (METI) and one from the Japan External Trade Organization (JETRO) to attract, facilitate, fast track and handhold Japanese investments across sectors. In order to strengthen the promotion of inward FDI, the Ministry of Foreign Affairs of Japan has established a "Contact Point for Promotion of Foreign Direct Investment in Japan" to support Indian companies intending to invest in Japan.[27]

Another key initiative under this partnership has been the agreement to develop 12 potential sites as Japan Industrial Townships (JITs) (Figure 5).

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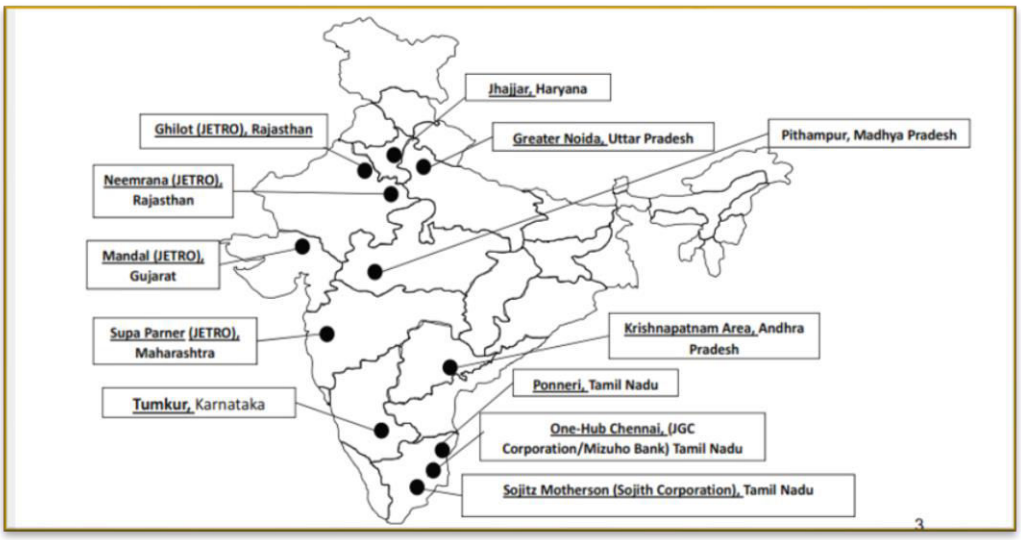
25 *2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania.* https://www.jetro.go.jp/ext_images/en/reports/survey/pdf/rp_firms_asia_oceania2019.pdf

26 *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies, JBIC FY 2019 Survey.* https://www.jbic.go.jp/en/information/press/press-2019/pdf/1127-012855_1.pdf

27 "Promotion of Foreign Direct Investment in Japan", https://www.mumbai.in.emb-japan.go.jp/en/politics_eco/directinvestmentinjapan.html

Figure 5: Potential Sites for Japan Industrial Townships



Source: Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, India

The JITs are envisaged as "integrated industrial parks with ready-made operational platforms, well equipped with world class infrastructure facilities, plug-in-play factories and investment incentives for Japanese companies". The idea is to replicate the success of the Japanese zone in Neemrana in the state of Rajasthan where currently 45 Japanese companies including Daikin, Nissin Brake, Mytex Polymer and Nippon Pipe among others are functioning. Of the 12 proposed JITs, 6 were operational as of October 2018.

To enable partnerships between the Indian and Japanese start-up ecosystems and facilitate meaningful synergies to promote joint innovation in both economies the two governments have set up the Japan India Start-up Hub. This online platform was "conceptualised as part of a joint statement signed between the Ministry of Economy, Trade, & Industry (Japan) and Ministry of Commerce & Industry (India) on 1st May 2018. The Hub will enable collaborations between start-ups, investors, incubators, & aspiring entrepreneurs of both countries and provide them requisite resources for market entry & global expansion".[28] Some of the success stories nurtured by this initiative include the collaboration between SoftBank and Paytm to launch a mobile digital payments service in Japan; investment by Japan's Recruit Group and others in Rubique, a Mumbai-based online marketplace for financial products; and a tie up for a start-up incubator between Taizo Son's Mistletoe and GSF India. JETRO is also encouraging Indian start-ups to explore the option of listing on the Tokyo Stock Exchange under the special programme for emerging businesses called "MOTHERS".[29]

[28] About Japan India Start-up Hub, https://www.startupindia.gov.in/japan

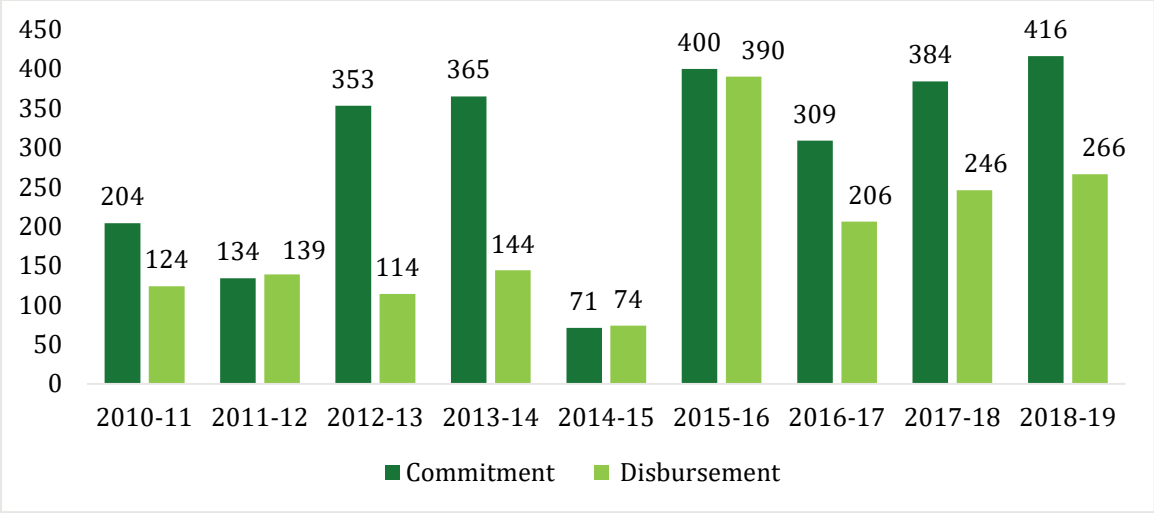
[29] "Japanese VCs, Invest India Highlight Opportunities for Indian Start-ups In Japan", https://inc42.com/buzz/japanese-vcs-invest-india-highlight-opportunities-for-indian-startups-in-japan/

2.3 Development Assistance

An important aspect of the upward trend in India-Japan economic relations is Japan's surge in provision of overseas development assistance (ODA), particularly since the beginning of the new millennium, even as Japan's overall economic assistance has faced budgetary constraints. India has been the top recipient of yen loans from Japan since 2003, surpassing China, which had been holding that position for many years. A noticeable positive trend in recent years is that actual disbursements of ODA have increased (Figure 6). From 2007-08, Japan has also introduced a 'Double Track Mechanism' for providing ODA loans which allows India to pose project proposals to the Japanese side twice in a financial year.

Japanese ODA supports priority areas like power, transportation, environmental projects and projects related to basic human needs. Japan is supporting the development of transportation hubs and network infrastructure in the areas of railways (including high-speed railways and metros) and national highways (including expressways) as well as electricity transmission and other infrastructure to strengthen connectivity among major industrial cities and economic zones as well as regional connectivity through key projects such as the Delhi-Mumbai Industrial Corridor (DMIC) and the Chennai-Bengaluru Industrial Corridor (CBIC).

Figure 6: Japan's ODA Disbursements to India (YEN billion)



Source: Embassy of Japan, India

Table 10: Japan's Recent ODA Loan Projects in the Transport Sector

Year	Project Name	Amount in JPY million
2018	Project for the Construction of Mumbai-Ahmedabad High-Speed Rail (MAHSR)	150,000
2018	Mumbai Metro's Line 3 Project (II)	100,000
2018	Chennai Metro Project (Phase 2) (I)	75,519
2018	Chennai Peripheral Ring Road Project (Phase 1)	40,074
2018	Kolkata East-West Metro Project (III)	25,903
2017	Mumbai Trans Harbour Link Project (I)	144,795
2016	Ahmedabad Metro Project (I)	82,434
2016	Dedicated Freight Corridor Project (Phase 1) (III)	103,664
2014	Delhi Mass Rapid Transport System Project Phase 3 (II)	148,887
2014	Bihar National Highway Improvement Project (Phase 2)	21,426
2011	Bangalore Metro Rail Project (II)	19,832

Source: JICA Projects in India 2019

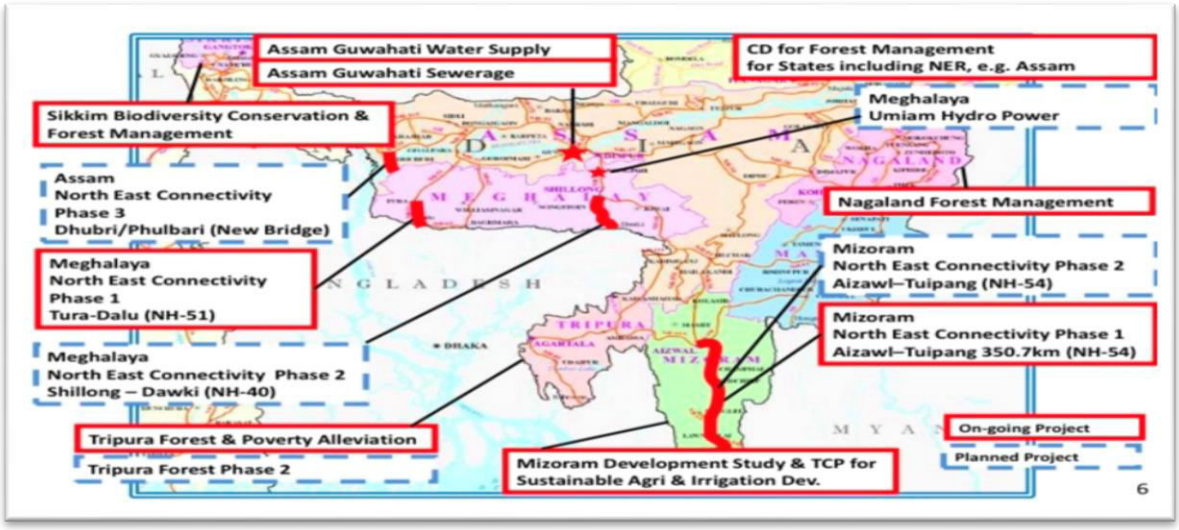
In 2018 the Japan International Cooperation Agency (JICA) signed an agreement with the Government of India to provide an ODA loan of JPY 89,547 million as tranche for the Mumbai-Ahmedabad High-Speed Rail (MAHSR). The objective of the project, popularly referred to as the 'Bullet Train Project' is to develop a high-frequency mass transportation system by constructing the High-Speed Rail between Mumbai and Ahmedabad using Japan's Shinkansen technology, enhancing mobility in India and contributing to regional economic development.[30]

Further, after the meeting in Tokyo in September 2014 between Prime Minister Shinzo Abe and Prime Minister Narendra Modi, Japan's co-operation for enhanced connectivity and development in Northeast India and linking the region to other economic corridors in India and to Southeast Asia has emerged as a significant component of the *India-Japan Special Strategic and Global Partnership*. In 2017, Japan committed JPY 67,170 million for the first phase of the North East Road Network Connectivity Improvement Project for improving connectivity in the northeast states by constructing highways and bridges. The focus is also on the use of modern slope protection technologies to

[30] "JICA Supports Project for the Mumbai - Ahmedabad High-Speed Rail by Providing an ODA loan of INR 5,500 Crore as Tranche 1". https://www.jica.go.jp/india/english/office/topics/press180928_01.html

address the problem of landslides in the region.[31]The two countries have established the *Act East Forum* to "identify specific projects for 'economic modernization' of India's North Eastern region including those pertaining to connectivity, developmental infrastructure, industrial linkages as well as people-to-people contacts through tourism, culture and sports-related activities".[32]

Figure 7: JICA Projects in the Northeast



Source: JICA India Office

3. COVID-19 Pandemic and the Global Economy

The COVID-19 pandemic that has put the world in a "great lockdown" is having a growing impact on the global economy. The extent and pace of collapse in global economic activity that has followed the outbreak of the pandemic is unlike anything experienced before. The crisis is truly "global" and, according to the International Monetary Fund (IMF) initial estimates in April 2020, global growth in 2020 will fall to -3 percent.[33] This is a downgrade of 6.3 percentage points from January 2020, a major revision over a very short period.[34] The cumulative loss to global GDP over 2020 and 2021 from the pandemic is estimated to be around US$ 9 trillion. Global GDP is expected to fall even further-an additional 3 percent in 2020 if the pandemic is more protracted this year, and, if the pandemic continues into 2021, a fall next year of an additional 8

31 "Rs, 4000 crore aid from Japan for better road connectivity in North East", *The Times of India*, April 7, 2017. https://timesofindia.indiatimes.com/city/guwahati/4000-crore-aid-from-japan-for-better-road-connectivity-in-ne/articleshow/58060303.cms

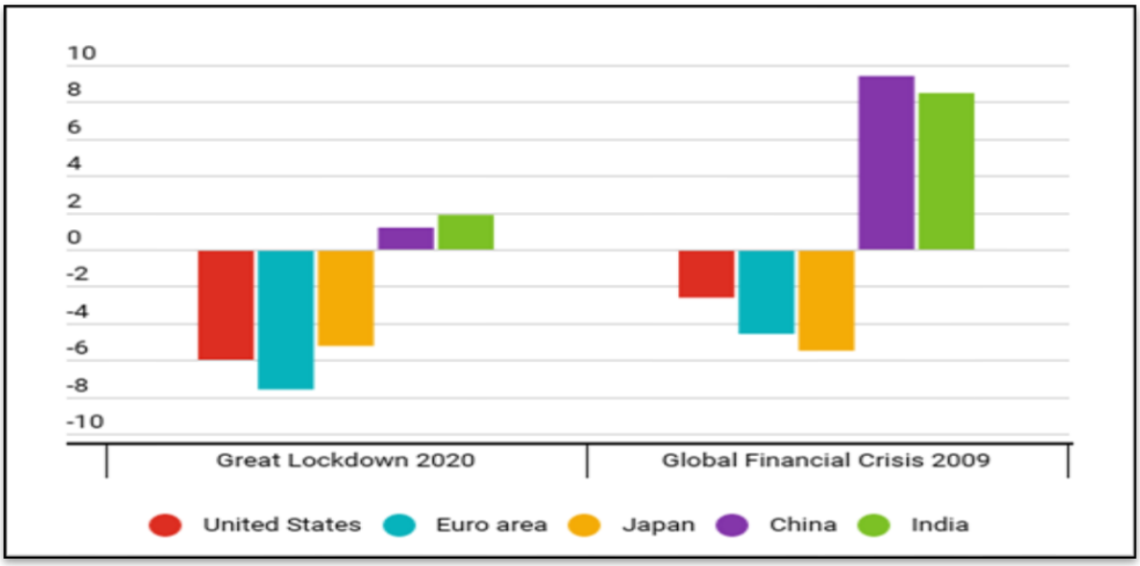
32 "Launch of India-Japan Act East Forum", https://www.mea.gov.in/press-releases.htm?dtl/29154/Launch_of_IndiaJapan_Act_East_Forum

33 *World Economic Outlook, April 2020: The Great Lockdown,* IMF, April 2020, https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

34 Gita Gopinath, "The Great Lockdown: Worst Economic Downturn Since the Great Depression", https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

percent.[35] The IMF projection of the year-on-year GDP growth rate, for major economies is presented below (Figure 8).

Figure 8: IMF Forecast of Real GDP Growth for Major Economies (% change)



Source: World Economic Outlook, IMF, April 2020

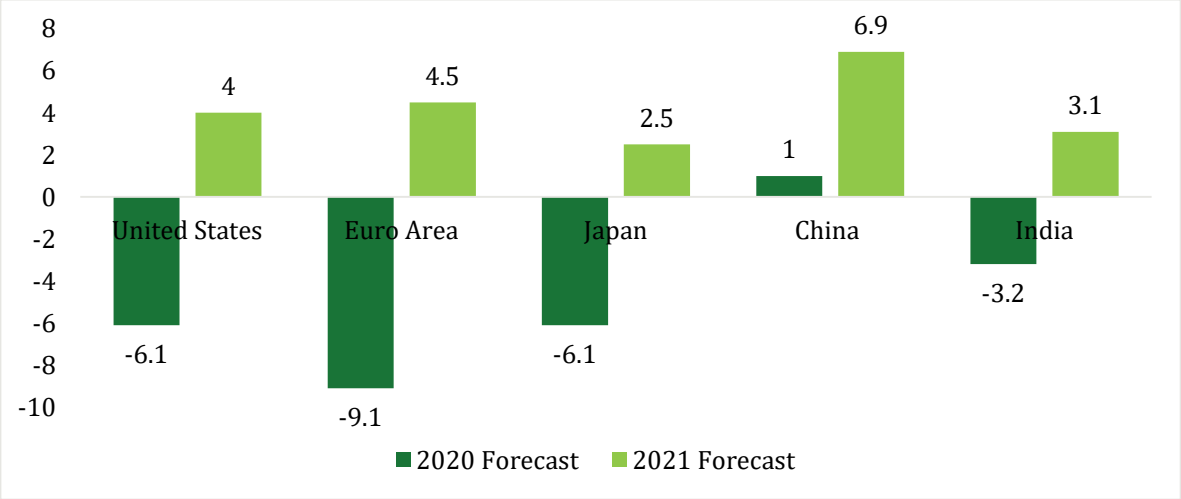
Note: For India, data and forecasts are presented on a fiscal year basis with FY 2020/2021 starting in April 2020. India's growth is 0.5 percent in 2020 based on the calendar year.

The June 2020, *Global Economic Prospects*[36], released by the World Bank predicts a 5.2 percent contraction in global GDP in 2020, the deepest global recession in decades. However, the report cautions, this view may be optimistic and, should the COVID-19 pandemic persist, global growth could shrink by almost 8 percent in 2020.Economic activity among advanced economies is anticipated to shrink 7 percent in 2020 as domestic demand and supply, trade, and finance have been severely disrupted. Emerging market and developing economies (EMDEs) are expected to shrink by 2.5 percent this year, their first contraction as a group in at least sixty years. The World Bank forecast for major economies is presented below (Figure 9).

35 Ibid.

36 *Global Economic Prospects,* World Bank, June 2020. https://www.worldbank.org/en/publication/global-economic-prospects

Figure 9: World Bank Forecast of Real GDP Growth for Major Economies (% change)



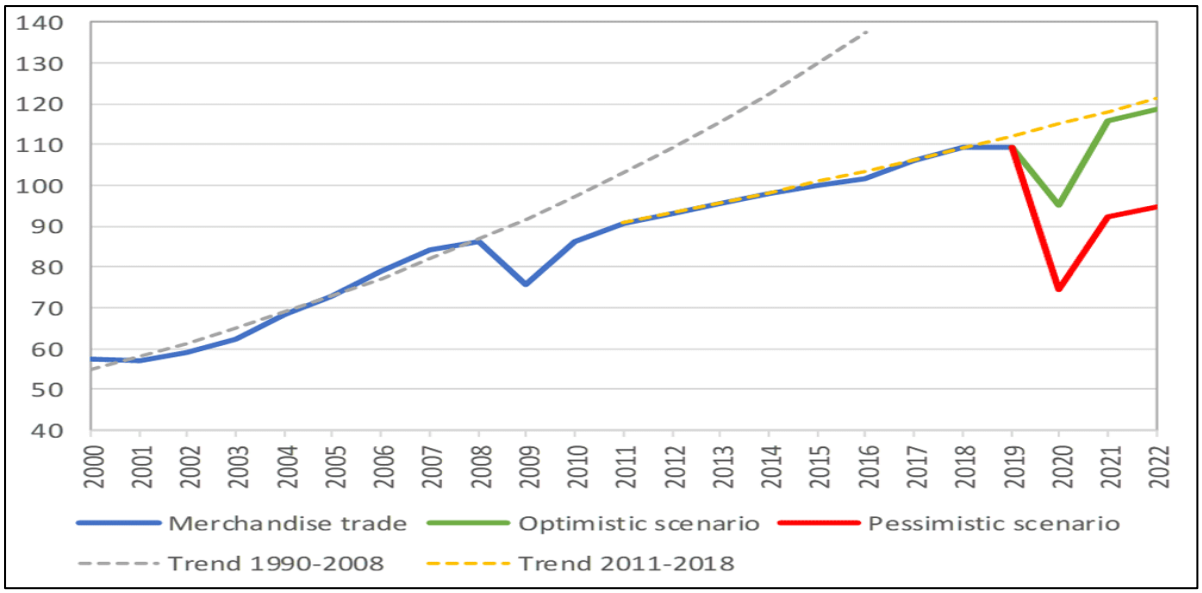
Source: *Global Economic Prospects, World Bank, June 2020*

Note: *Annual GDP data for India is on fiscal year basis*

According to the World Trade Organization (WTO), world trade in 2020 will fall steeply in every region of the world and across all sectors. The future trade performance outlook underlines two distinct scenarios: (1) a relatively optimistic scenario, with a sharp drop in trade followed by a recovery starting in the second half of 2020, and (2) a more pessimistic scenario with a steeper initial decline and a more prolonged and incomplete recovery (Figure 10).[37]In the optimistic scenario, the volume of global merchandise trade is projected to fall by 13 percent this year compared to 2019.[38] However, if the pandemic is not brought under control, and governments fail to implement and co-ordinate effective policy responses, the decline could be 32 percent or more.[39] The WTO forecasts that "nearly all regions will suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest" and that "trade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products."[40]

37 WTO Trade Forecast Press Conference, Remarks by DG Azevêdo, April 8, 2020. https://www.wto.org/english/news_e/spra_e/spra303_e.htm
38 WTO Press Release, April 8, 2020.https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
39 Ibid
40 Ibid.

Figure 10: WTO Outlook for Global Merchandise Trade



Source: WTO Secretariat

4. Opportunity for India-Japan Economic Partnership

The Indo-Pacific region accounts for a sizeable share of Global Value Chain (GVC) issued products. The region principally exports electronics, automotive parts, agricultural products (primary and processed), apparel, and, footwear and over the years, China has emerged as an important hub in GVC networks. However, in recent years, rising labour costs in China and the escalating US-China trade conflict have prompted global companies to re-evaluate their supply chains to mitigate the impact of this uncertainty, with many also taking a hard look at relocating out of China. Now with countries across the globe battling the COVID-19 pandemic, the issue has acquired even greater urgency and accelerated the debate around the widely discussed '*China-Plus-One'* strategy which "refers to the practice of international businesses active in China coupling their investments with a second facility, generally in another Asian economy".[41] On the extreme end of the spectrum of views is the '*China Free'* policy that posits leaving out China from the production process.[42]

The Japanese government of Prime Minister Shinzo Abe has been one of the first in the world to articulate a national policy response with regard to COVID-19 related supply disruptions in the light of excessive dependence on China. On March 5 this year, at the "36thCouncil on Investments for the Future", the Prime Minister stated. -

41 Peter Enderwick, "A 'China-Plus-One' strategy: The best of both worlds?", *Human Systems Management*, vol. 30, no. 1-2, pp. 85-96, 2011. https://content.iospress.com/articles/human-systems-management/hsm0735

42 Hajime Takata, "Is China plus one realistic given China's large presence", Mizuho Research Institute, *Market Insight*, January 23, 2017. https://www.mizuho-ri.co.jp/publication/research/pdf/mi/MI170127.pdf

> *"There are some concerns over the impacts of the decline in product supply from China to Japan on our supply chains. In light of that, as for those products with high added value and for which we are highly dependent on a single country, we intend to relocate the production bases to Japan. Regarding products that do not fall into this category, we aim to avoid relying on a single country and diversify production bases across a number of countries, including those of the Association of Southeast Asian Nations (ASEAN)."*[43]

Soon after the, Supplementary Budget for FY2020 proposal presented on April 7 included about JPY 240 billion (approximately US$ 2.2 billion) as a measure to help Japanese manufacturers shift production out of China. The aim is to provide new subsidies to encourage Japanese manufacturers to bring production centres back to Japan and diversify into other Asian countries.[44]This economic stimulus to try to offset the devastating effects of the COVID-19 pandemic includes JPY 220 billion to shift production back to Japan and JPY 23.5 billion yen to support diversification of global supply chains.[45]

Subsequently, Japan's Minister in charge of Economic Revitalisation Yasutoshi Nishimura was quoted as saying, "We have become dependent on China".[46]"We need to make supply chains more robust and diverse, broadening our supply sources and increasing domestic production."[47] The question is, - can India tap into this opportunity, given that India, compared to other East Asian peers, is much less integrated with global value chains in the Indo-Pacific?

The decision on where to go for companies opting to diversify their production sites and supply chains away from China, involves several considerations such as labour costs, infrastructure and country risk.[48] However, the finding of a study by Nomura has been that out of 56 companies that relocated their production out of China between April 2018 and August 2019, only three chose to go to India.[49] Indeed, the key impediments in India's in participation in GVCs are domestic - distortions in land, labour, capital markets, weak connectivity and logistics chains as well as relatively

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43 Council on Investments for the Future, March 5, 2020. https://japan.kantei.go.jp/98_abe/actions/202003/_00009.html

44 Shin Kawashima, "Is Japan Pulling Its Companies out of China?", *The Diplomat*, May 11, 2020. https://thediplomat.com/2020/05/is-japan-pulling-its-companies-out-of-china/

45 "Overview of the Supplementary Budget for FY2020". https://www.mof.go.jp/english/budget/budget/fy2020/02.pdf

46 Japan wants manufacturing back from China, but breaking up supply chains is hard to do", *The Economic Times*, June 09, 2020. https://auto.economictimes.indiatimes.com/news/industry/japan-wants-manufacturing-back-from-china-but-breaking-up-supply-chains-is-hard-to-do/76273838

47 Ibid.

48 Philippa Symington, "China Plus One", *FTI Journal*, February 2013. https://www.ftijournal.com/article/china-plus-one/

49 Lee KahWhye, "Trade War: Why manufacturers are not rushing into India, Indonesia" *ANI,* October 7, 2019. https://www.aninews.in/news/world/asia/trade-war-why-manufacturers-are-not-rushing-into-india-indonesia20191007113847//

restrictive trade policy in goods and services. In order to gear up and provide a conducive business environment, India needs a focused reform agenda along a four - pillared strategy that includes (i)trade liberalisation through reduced tariffs and greater market access, (ii)trade facilitation, (iii) business and investment facilitation and, (iv)technology transfer and skill development.

A promising start in this direction has been made with Indian Prime Minister Narendra Modi calling for the country to turn the COVID-19 crisis into an opportunity to become self-reliant - *aatmanirbhar* - as well as "emerge as the global nerve centre of complex modern multinational supply chains in the post COVID-19 world."[50] According to him the country now needs to manufacture products which are *Made in India* but are *Made for the World*.[51] To this end, the thrust of the Indian government is "on the next phase of 'Ease of Doing Business Reforms' relating to easy registration of property, fast disposal of commercial disputes and simpler tax regime."[52] Currently India is ranked 63 in the World Bank's annual "Doing Business Report" (DBR) (Table 11).

Table 11: India's Ease of Doing Business Ranking

Year	Ranking
2014	142
2015	130
2016	130
2017	100
2018	77
2019	63

Source: Doing Business, The World Bank (http://www.doingbusiness.org)

India is also reported to be developing a huge land pool of 461,589 hectares to lure firms leaving China and has picked 10 sectors - electrical, pharmaceuticals, medical devices, electronics, heavy engineering, solar equipment, food processing, chemicals and textiles - as focus areas.[53]

Correspondingly, proactive efforts by several Indian states to attract Japanese companies have also gathered momentum. According to media reports, in a video

50 "After COVID, India can be at centre of global supply chains: PM Modi", *The Indian Express*, Aril 20, 2020. Available at https://indianexpress.com/article/india/pm-narendra-modi-coronavirus-india-lockdown-6370013/

51 "Need to manufacture 'Made in India' products which are 'Made for the World': Top 10 points from PM Modi's CII address", Hindustan Times, Jun 02, 2020. Available at https://www.hindustantimes.com/india-news/need-to-strengthen-india-s-stake-in-the-global-supply-chain-to-bolster-economy-top-10-points-from-pm-modi-s-cii-address/story-dxs5kHnZyN78R7ARPTi9vN.html

52 "Government Reforms and Enablers", May 17, 2020. Available at https://cdnbbsr.s3waas.gov.in/s3850af92f8d9903e7a4e0559a98ecc857/uploads/2020/05/2020051740.pdf

53 "India developing land pool twice Luxembourg's size to lure firms leaving China", *LiveMint,* May 4, 2020. https://www.livemint.com/news/india/india-developing-land-pool-twice-luxembourg-s-size-to-lure-firms-leaving-china-11588592770763.html

conference interaction with the Japanese Ambassador Satoshi Suzuki, the Government of Uttar Pradesh has offered exemption of labour laws for almost three years, good connectivity through airports and expressways, easy availability of land parcels for developing industrial units and technology parks as some of the incentives to Japanese companies planning to relocate to India from China in the wake of the COVID-19 pandemic.[54] The state has also functionalised a Japan specific help desk.

The state of Gujarat, which already is a big beneficiary of FDI from Japan, is offering incentives and subsidies for manufacturing units in more than 30 sectors.[55] The state of Punjab has set up four industrial parks and has written to several embassies in India including Japan offering all possible support, in terms of land, infrastructure and other facilities.[56] The state of Rajasthan, highlighting the experience of the two Japanese zones in Neemrana and Ghilot, is setting up a special Task Force to finalise a plan and package that could be offered to potential investors.[57] The Assam government is in touch JETRO for setting up of a Japanese Industrial Township in Assam to attract investment from Japanese industries.[58] Similarly, the state of Tamil Nadu, which already houses over 600 Japanese companies, has set up a high level committee that includes representatives from countries like Japan and South Korea to prepare a special incentive package and facilitation process to draw investments.[59]

5. Going Forward

India as a global manufacturing hub is a tantalizing prospect; however, the enabling environment for enhancing FDI from Japan will necessitate substantive policy efforts. Japanese companies have primarily been attracted by the growth potential of India's domestic market and interest in the country as a production base for exports has been limited. India has not established a strong value chain with industries in Japan. In this context, this study highlights the following:

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54 "UP woos Japanese, EU companies relocating from China", *The Economic Times*, May 9, 2020. https://economictimes.indiatimes.com/news/politics-and-nation/up-woos-japanese-eu-companies-relocating from-china/articleshow/75640377.cms

55 Nandini Oza, "Gujarat looks to make hay as Japan plans to move businesses out of China", *The Week*, April 16, 2020. https://www.theweek.in/news/biz-tech/2020/04/16/gujarat-looks-to-make-hay-as-japan-plans-to-move-businesses-out-of-china.html

56 "Punjab has reached out to nations looking to move business from China: CM Amarinder Singh", *Hindustan Times*, May 24, 2020. https://www.hindustantimes.com/business-news/punjab-has-reached-out-to-nations-looking-to-move-business-from-china-cm-amarinder-singh/story-QClVro8a5Va1YE7MQf6m5M.html

57 "Rajasthan eyes a slice of global investments moving out of China", *The Times of India*, May 28, 2020. https://timesofindia.indiatimes.com/city/jaipur/raj-eyes-a-slice-of-global-investments-moving-out-of-china/articleshow/76049613.cms

58 "Assam wants cos leaving China to invest here", *The Times of India*, May 6, 2020. https://timesofindia.indiatimes.com/india/assam-wants-cos-leaving-china-to-invest-here/articleshowprint/75573959.cms

59 "Tamil Nadu Sets Up Crack Team to Net Companies Fleeing China, Other Covid-Hit Nations", *News 18 Business*, April 30, 2020. https://www.news18.com/news/business/tamil-nadu-sets-up-crack-team-to-net-companies-fleeing-china-other-covid-hit-nations-2599583.html

i. While India's 'Ease of Doing Business', ranking has improved significantly in recent years other categories such as 'Starting a Business', 'Registering Property' and Enforcing Contracts' remain a matter of concern. Thus, domestic regulatory and procedural reforms such as administrative procedures required to establish and operate a business, compliance requirements, regulatory institutions, foreign exchange restrictions, ownership limits, sectoral caps, dispute resolution, complex taxation, land acquisition, repatriation of profits, and intellectual property rights need to be accorded high priority. It would also be expedient at the state level to set up dedicated Japan desks as in the case of Uttar Pradesh and involve Japanese representatives in the formulation of incentives packages as in the case of Tamil Nadu.

ii. Quality infrastructure deficiencies in India have been a major concern for Japanese companies for long time. As India seeks to develop more industrial estates on the lines of a "plug and play" infrastructure model it would be beneficial to fast-track the Japan Industrial Townships (JITs) being developed in the country in collaboration with Japan government agencies such as JETRO and JICA, particularly with the view to attract Japanese SMEs. Another point to note is that while the ODA support from Japan for infrastructure development in India has been quite substantial, effective utilisation of ODA commitments from Japan has been sluggish and several of these projects such as the Delhi-Mumbai Industrial Corridor are delayed. This also negatively impacts the perceptions of both existing and potential investors from Japan.

iii. An important criterion for becoming a 'desirable manufacturing location' is the availability of skilled manpower. Education and training, therefore, need to be geared towards skill development. Thus, programmes such as the 'Japan-India Institute for Manufacturing' (JIM)scheme that was initiated in 2016 as a collaborative programme between the Governments of India and Japan along with Japanese companies to create a pool of skilled manpower for manufacturing units in India should be encouraged further. A total number of 10 JIMs are currently operating with the involvement of companies like Suzuki Motor Corporation, Yamaha Motors, Toyota Motor Corporation and Daikin Industries.

iv. In increasingly complex global supply chains there is also greater use of skill-intensive inputs, notably services. Around this process of 'servicification', upstream activities such as R&D and product design, together with downstream activities, such as branding and advertising, are acquiring an ever-increasing share of the value added, while intermediate production of parts and components and the final assembly end up with lower shares. In the efforts to attract FDI from Japan, India should leverage its strength in services and facilitate Japanese companies to set up R&D facilities and global in-house centres (GICs)in India taking advantage of the country's talent pool, its growing start-up ecosystem and cost efficiency. In this

context it would also be useful to analyse the challenges faced by Japanese-led R&D units currently operating in India and implement appropriate remedial policies.

v. High import tariffs as well as cross-border bottlenecks and inadequate regional connectivity impeding efficient movement of goods across national borders tend to have a big impact on GVC integration. In fact, tariffs and other protection measures are cumulative when intermediate inputs are traded across borders several times and add a significant cost to the price of the finished good; this, in turn affects the production and investment decisions of firms involved in GVCs. More than 200 Japanese companies in India interviewed recently by JETRO have said that that they would maintain or increase their local production in India if it joined the Regional Comprehensive Economic Partnership (RCEP) which aims to create an integrated market with 16 countries.[60] Japan, in fact has taken the lead to urge India back to the negotiations after India last year decided not to join the RCEP. India should therefore reassess the RCEP pragmatically as it is likely to improve prospects for bilateral trade and investments from Japan. Alongside, the review of the India-Japan CEPA should be fast tracked to address India's outstanding issues and concerns.

vi. It is also well recognised that cross-border transport corridors are primary structuring elements in the multi-layered approach of economic corridors that link regional production networks and supply chains and generate wider economic and social benefits.Enhanced regional connectivity with ASEAN through speedy implementation of projects such as the IMT (India, Myanmar, Thailand) highway and its extension to Laos, Cambodia and Vietnam as well as greater digitalization of trade procedures for ease of border crossings, therefore, can be an additional catalyst in energising the India-Japan economic partnership with particular benefit to India in terms of economic development of its North East Region (NER).

60 Amiti Sen, "RCEP countries woo India back to drawing board with 'flexible package'", *The Hindu Business Line*, June 1, 2020. https://www.thehindubusinessline.com/news/rcep-countries-woo-india-back-to-drawing-board-with-flexible-package/article31724943.ece#

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INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS

Core 6A, 4th Floor, India Habitat Center, Lodhi Road, New Delhi 110003, India
T: +91 11 43 112400
www.icrier.org