

India-Japan cooperation in the Indo-Pacific Era with special reference to bilateral trade

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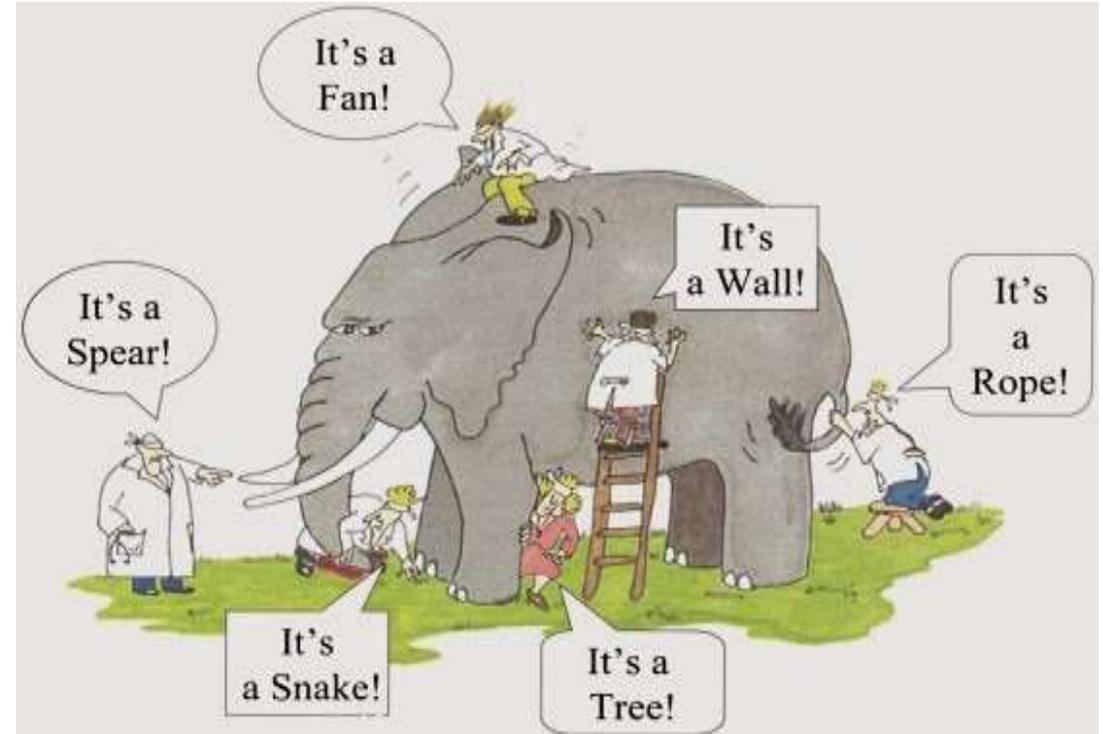
Explaining the Background: The Indo-Pacific

- Indo-Pacific Construct gained traction in 2019 (DOD Indo-Pacific Strategy)
- Literatures trace Origin to Confluence of the Two Seas: Abe (2007, Indian parliament)
- +Arc of freedom and prosperity (Aso, 2006 JIIA)
- In the context of India-Japan relations Indo-Pacific era starts in 2006-07 onwards
- “a strong India is in the best interest of Japan, and a strong Japan is in the best interest of India.”



India-Japan trade and Economic Partnership: Objectives

- **Strong India??** Economically or militarily?
- Indian scholars were divided:
- Partnership aimed at making India economically strong : (**Economists**)
- aimed at making militarily strong (**Strategic experts, Retired military officials**)
- Debates in New Delhi's strategic circles reminds
- Buddhist parable of the blind scholars and their encounter with the elephant.



India-Japan and “Economy Stupid” logic

- Economy would be the “bedrock” in the bilateral partnership: Manmohan Singh
- Strengthened the hands of economic experts who believed that
- the economic partnership is aimed at
- A) bridging power differential between China and India (China was poised to surpass Japan in terms of GDP)
- B) minimize each others economic dependence on China to thwart China’s growing economic pre-eminence in Asia.





How to uplift India-Japan economic Engagement?

- India-Japan JSG (2006) **found:**
 - “highly complementary in terms of, capabilities, demographic profiles, convergences and specializations.”
 - **Suggested:**
 - Signing of Economic Partnership Agreement (Liberalizing trade in goods and services)
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IJCEPA 2011

- Concluded in 2010, Came into effect on Aug 1, 2011.
- “bilateral relationship will be enhanced by forging **mutually beneficial economic partnership** through liberalization and facilitation of trade and investment.”
- Will
- “open new era of relationship”
- “contribute to **expanding trade and investment** not only between the two parties but **also the region.**”
- Indeed the two countries Eliminated or drastically reduced tariffs on goods traded between the two countries.

Political Expectations

- Both Indian and Japanese leaderships had attached high hopes with the bilateral economic partnership engagement.
- bilateral agreement “will develop areas of **potential mutual complementarity**, further strengthen the bilateral economic relationship, and **promote economic development by increasing the cross-border flows of goods, persons, investment and services.**” (**Kan-Monmohan joint Statement 2010**)

Expectations by various sections

Optimists

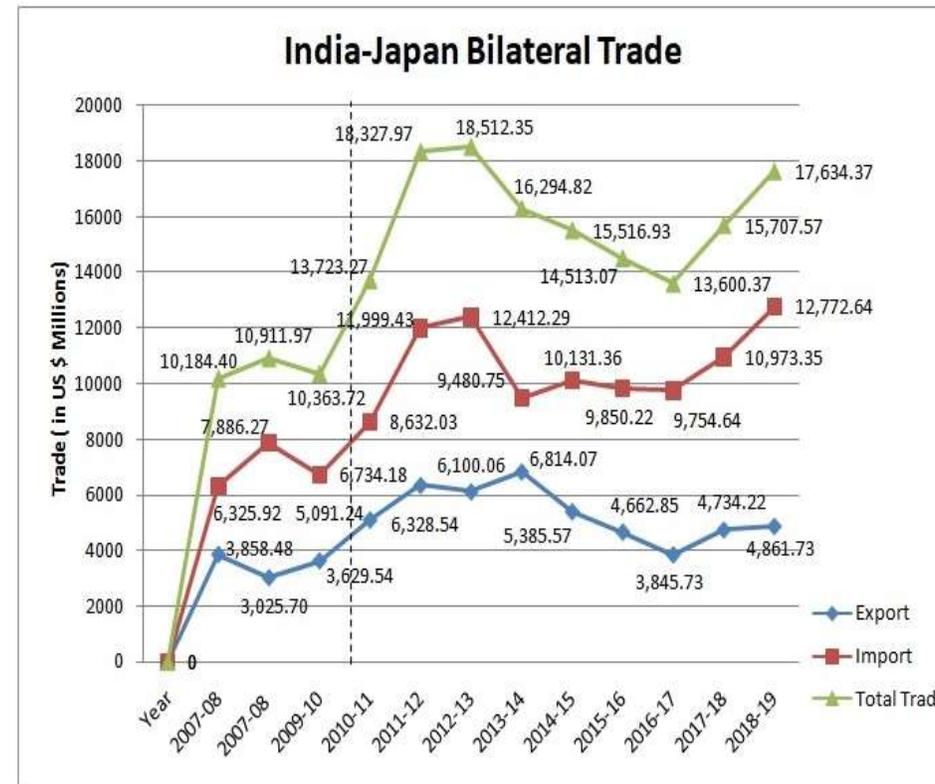
- “tariff reduction will increase India’s export to Japan by 18.25 percent, while for Japan it will be only 4.65 percent.” (Simulation study by **Biswa Nath Bhattacharya and Kakali Mukhopadhyay,**)

Pessimists

- “Japan’s Sanitary and Phytosanitary Measures (SPS) standards are major barriers of Indian exports of poultry, meat, tuna, shrimp, mine products and fruits”. (**PRI Study by Nataraj**)
- Growth in trade can take place when “behind the border” constraints are eliminated (**Kaliappa Kalirajan and Swapan Bhattacharya**)

Positive impacts

- The CEPA has certainly boosted bilateral trade which was well below potential.
- it touched USD 18.3 billion.
- After decelerating in next few years it has started accelerating again.



Japanese Investment mood: Long term and Short Term (JBIC)

Long term destination

Promising Countries/Regions for Business Development over the Long-term
①FY2018 Results

Ranking			Country/Region (Total)	No. of Companies		Percentage Share(%)	
2018	←	2017		2018	2017	2018	2017
8	←	7	(Total)	350	337		
1	□	1	India	205	214	58.6	63.5
2	□	2	China	164	146	46.9	43.3
3	□	3	Vietnam	115	115	32.9	34.1
3	▲	4	Indonesia	115	109	32.9	32.3
5	□	5	Thailand	105	80	30.0	23.7
6	□	6	US	76	78	21.7	23.1
7	□	7	Myanmar	41	48	11.7	14.2
7	▲	8	Mexico	41	45	11.7	13.4
7	□	9	Brazil	41	43	11.7	12.8
10	□	10	Philippines	30	33	8.6	9.8

Medium term destination

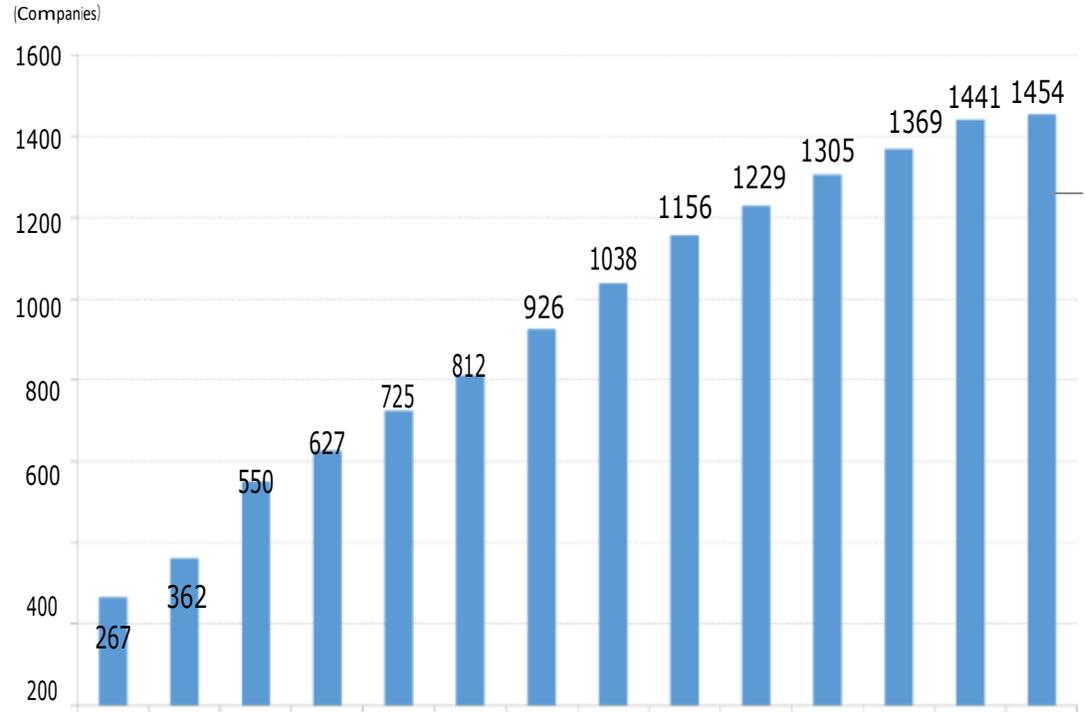
Ranking			Country/Region (Total)	No. of Companies		Percentage Share(%)	
2018	←	2017		2018	2017	2018	2017
1	—	1	China	225	203	52.2	45.7
2	—	2	India	199	195	46.2	43.9
3	▲	4	Thailand	160	153	37.1	34.5
4	▼	3	Vietnam	146	169	33.9	38.1
5	—	5	Indonesia	131	147	30.4	33.1
6	—	6	US	124	116	28.8	26.1
7	—	7	Mexico	59	81	13.7	18.2
8	—	8	Philippines	43	47	10.0	10.6
9	▲	9	Myanmar	37	40	8.6	9.0
10	▲	12	Malaysia	36	26	8.4	5.9
11	▼	16	Germany	25	13	5.8	2.9
12	▼	10	Brazil	24	28	5.6	6.3
13	—	10	Korea	22	28	5.1	6.3
14	▼	14	Taiwan	19	17	4.4	3.8
15	▼	13	Russia	16	19	3.7	4.3
16	▲	14	Singapore	15	17	3.5	3.8
17	▼	20	Cambodia	13	9	3.0	2.0
18	▼	18	Australia	12	10	2.8	2.3
19	▲	17	Turkey	9	12	2.1	2.7
20	▲	23	Laos	7	5	1.6	1.1
20	—	32	France	7	2	1.6	0.5

Despite CEPA, India is unable to attract Japanese companies into India

Only 13 companies established its base in India in 2019 (Japanese Embassy)

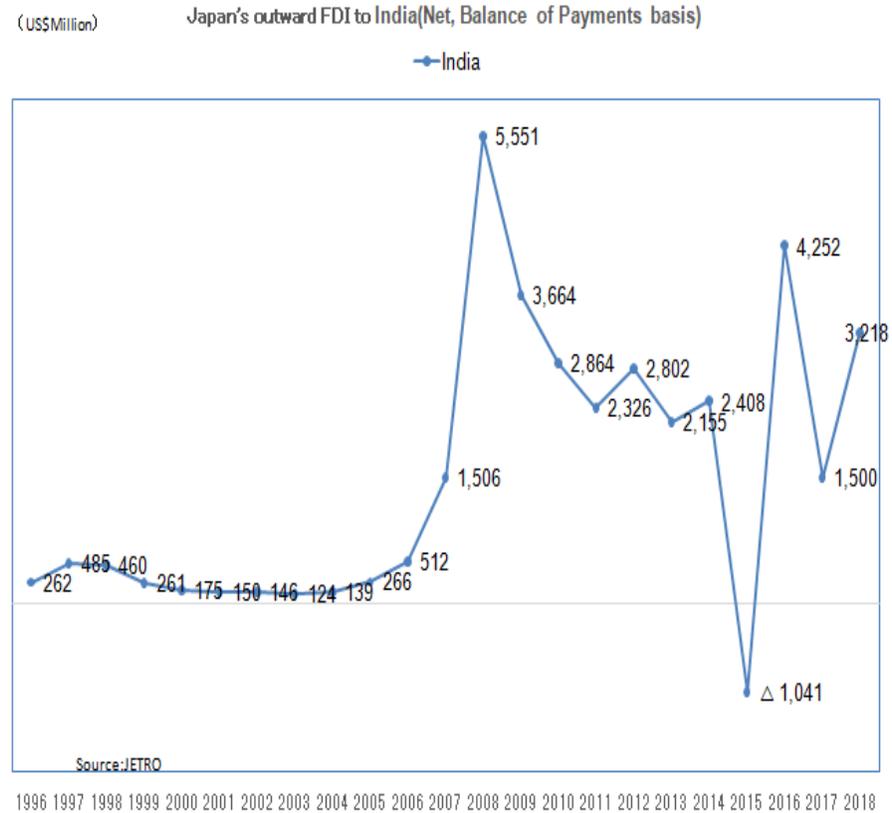
Incremental rise in Japanese production base in India

Presence of Japanese Companies in India



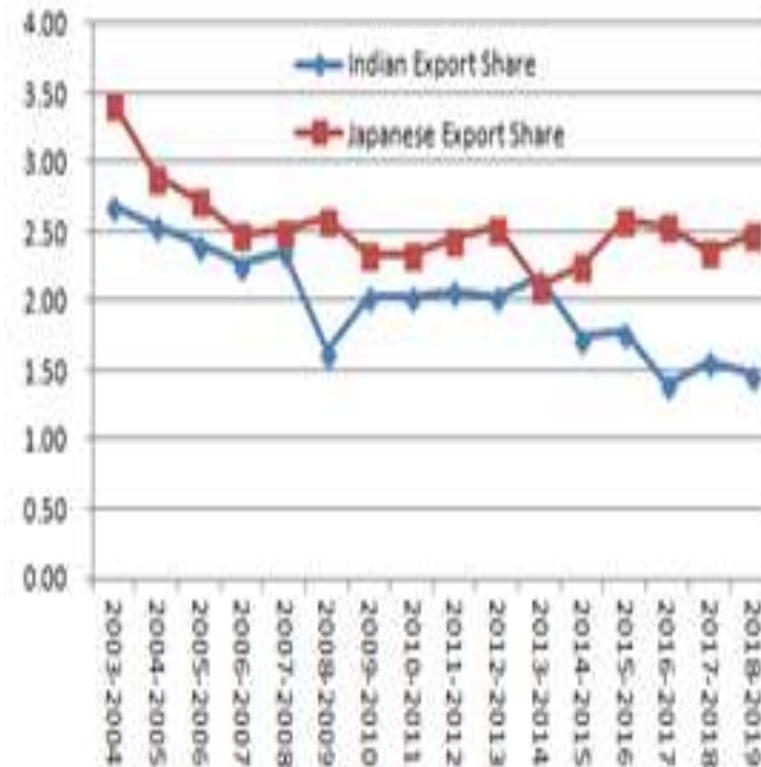
Mixed Impact

- Despite the fluctuation in Japanese FDI towards India, Japan continues to maintain among the top investors position of FDI in India.
- India is unable to compete with ASEAN countries in attracting Japanese FDI. (Corporate Tax remains low in ASEAN countries, has good infra. well established supply chain connected to China)



Negative impacts

- “It is advantaged Tokyo in India-Japan economic pact” (*Financial Express*, May 7, 2012)
- Japanese exports to India grew by 40.96% while India’s export to Japan managed to grow only 18.39 %.
- A year before CEPA Indian exports to Japan had grown by 43% and imports had grown by only 28%.



Concerns at political level

- India's trade share in bilateral trade remains low.
- Both Anan Sharma and Nirmala Sitharaman (Minister of Trade and Commerce in UPA and NDA govts) have attributed to “NTBs” as a reason for India's low trade share.
- “projected gains for India... have not materialised to the extent expected.” It also points towards NTBs being applied by Japan.
- “access to the Japanese market remains constrained by NTBs. (Foreign Trade Policy Statement 2015)

Japan's China decoupling :India's hope

- Post Covid, Japan encourages its companies to relocate
- Japan and ASEAN countries remains Japanese companies' destination
- In the second phase Japan added India and Bangladesh
- This generates hope in India
- Various states/regions have offered EEZ and other incentives if Japanese companies relocate to
- Impact is yet to be seen. Only time will tell.

Indo-Pacific and Supply Chain Resilience Initiative (SCRI)

- “Japan needs to restructure its supply chains so that it does not rely on any particular country.” (May 11, 2020 *Yomiuri Shimbun*)
- India-Australia-Japan Supply Chain Initiative: Signed in sept 2020
- Aims at an alternative Supply Chain not dependent on China
- Will it succeed also remains a question?



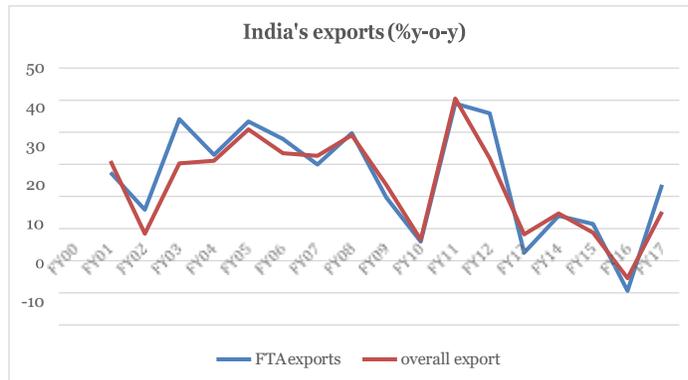
In lieu of Conclusion

- While political and security engagement has deepened between Japan and India in the Indo-Pacific Era
- Quadrilateral security dialogue has been institutionalized
- Bilateral and multilateral Naval Exercises are taking place
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- But the trade and economic cooperation is still to achieve the stated objective
- A) bridging the **power differential** between India and China by uplifting its Economic status.
- B) Easing economic dependence in China
- And this reflects in India's behaviour: **(not to antagonize China)**

EPA impact: India is hesitant to further open its market (withdrew from RCEP)

Source: V.S. Saraswat/NITI Ayog

Computed by author



Serial No.	Partner Countries	Years of Enforcement	India's Exports FY 2018-19	India's Import FY 2018-19	Total Trade FY 2018-19	Trade Balance FY 2018-19
1.	India-Nepal	1999	7,763.60	503.51	8,267.11	+
2.	India-Sri Lanka	2000	4,708.50	1,472.83	6,181.33	+
3.	India-Afghanistan	2003	715.44	435.44	1,150.89	+
4.	India-Singapore	2005	11,571.14	16,281.64	27,852.78	-
5.	India-Bhutan	2006	657.33	369.53	1,026.86	+
6.	India-Chile	2007	989.80	1,237.55	2,227.35	-
7.	India-Finland	2009	256.12	1,124.08	1,380.20	-
8.	India-Korea	2010	4,705.07	16,758.76	21,463.83	-
9.	India-Japan	2011	4861.73	12772.64	17634.37	-
10.	India-Malaysia	2011	6,435.25	10,818.60	17,253.85	-

Japanese Leadership's vision does not gell with Investors

- While Japanese leadership wants to see “a strong India is in the best interest of Japan, and a strong Japan is in the best interest of India.”
- Japanese investors continue to see their interests in South East Asia.
- SPS standards and other “NTB” remains a perceived barriers checking the flow of entry of Indian goods in Japan
- Peoples to people contact (or flow of Indian service personnel towards Japan) continues to be a weak link in the trade ties.
- We are yet to see India emerging as a Strong and prosperous Indo-Pacific nation.
- Since India and Japan remains at two different levels in their economic progress, we find divergence in their national interests as well.

Thank You ありがとう

- お疲れ様です!