

EMPEROR AKIHITO'S INDIA VISIT

A bigger bite of the Japanese pie

Besides investing in automobile and machinery, Japan can play a major role in India's infrastructure development

Japan and India, the second and third-largest economies of Asia, share universal values such as freedom, democracy and rule of law, and enjoy a very close and wide-ranging relationship. Their relationship has gradually grown into a strategic and global partnership and the two countries are endeavouring to further strengthen the same through cooperation in areas like politics, defence, trade and commerce.

Over the last 15 years, the two countries are engaged in regular political exchanges, dialogue and policy coordination at all levels. The "2plus2" dialogue, the foreign-secretary-level dialogue, the foreign office consultations, the defence policy dialogue, maritime affairs dialogue, the trilateral dialogue between India, Japan and the US, as well as other key interactions in various areas including counter-terrorism, maritime security and economic partnership are progressing steadily.

Over the last five years, bilateral trade between India and Japan has increased by over 80% to \$18.5 billion in 2012-13, with exports to Japan accounting for \$6.1 billion and imports \$12.4 billion. However, India cannot be considered as an important market for Japan in any of Japan's major export verticals. Indian imports from Japan are dominated by capital and knowledge-intensive, high value technology products like electronic goods, non-electrical machinery, transport equipment etc. And Indian exports to Japan mainly include mineral fuels, mineral oils, marine products, raw materials, iron and steel, natural and cultured pearls, precious stones and imitation jewellery and intermediate inputs like minerals and chemicals.

One important factor that explains India's modest shares in Japanese imports, especially in products such as auto and auto-components, precision instruments, electrical and electronic goods, and organic chemicals is the lack of supply-chain linkages and off-shore

production arrangements between the two countries. Intra-industry trade based on off-shoring of production by major Japanese firms forms the basis of much of the trade between Japan and other major Asian economies such as Malaysia, Thailand and Taiwan. Besides, there are also high costs of doing business and logistics that have prevented India from emerging as a major destination for off-shore manufacturing.

The Comprehensive Economic Partnership Agreement (CEPA) between India and Japan has given a fillip to economic and trade relations. It covers trade in goods, services and investment. India stands to gain significantly through this agreement as it has reduced tariff on 90% of the tariff lines, while Japan has reduced tariff on 95%. When CEPA becomes operational, we expect market access would be provided to the Indian pharmaceutical products to a highly developed Japanese market as, for the first time, Japan has committed to give the Indian generic-makers the same treatment as it gives its domestic industry. Indian agricultural produce including instant tea and seafood will find their way in the Japanese market. Textile products, including ready-made garments, are also expected to gain significantly in terms of market access.

The service sector is of huge significance for both the Japanese and Indian economies. Trade in services confers benefits not only to the services sector itself, but also to both the primary and secondary production sectors. Japan is a significant global player in services, often linked with overseas investment,



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CEPA is expected to give Indian pharma greater access to the Japanese market as Japan has committed to treat Indian generic-makers on a par with its own pharma industry

yet the presence of Japanese services firms in the Indian market is much less than it is in other parts of Asia. On the other hand, India leads in IT, business processing and R&D investments. Indian professionals like consultants, engineers, etc., are expected to have easier and greater access to work in Japan as stipulated under CEPA. The Social Security Agreement signed by the two countries is likely to contribute further by accelerating bilateral activities of private sectors.

In case of overseas investment, India is regarded as the second favourite investment destination for Japanese companies after China. Japan is the fourth-largest investor in India with an investment of \$14.85 billion in the last 13 years after Mauritius, Singapore and the UK. Most of the Japanese FDI in India is in the manufacturing sector such as automobiles, electronics, and a few other related segments.

India presents vast investment opportunities for Japanese companies in manufacturing sub-sectors such as automobiles, machinery, chemical industries, etc. This necessitates that we emphasise on cooperation in development of manufacturing of electronic hardware, telecommunication equipment, heavy industries, rail transit systems and cutting-edge technologies in India.

Japan is one of the leading countries in technology transfer to India. Technology development and technology transfer are essential to make economic relationship stronger. Technological exchanges in sectors such as agriculture and environment management would greatly help Indian industry's growth.

Besides, Japan can partner India in its efforts to build a strong infrastructure sector, which envisages an investment of over \$1 trillion in the next five years. This includes areas such as power, nuclear power, renewable energy, roads, railways, ports, airports, etc.

Furthermore, we need to enhance our efforts to promote skill up-gradation and skill development in both the public and private sectors in India through initiatives such as skill training and certification, bilateral exchanges and corporate internships.

It is also a welcome initiative from the Japanese government to continue its Official Development Assistance (ODA) to encourage India's efforts towards social and economic development, including in the area of infrastructure and human resource development. Another area of interest in this regard are the Japanese loans for the Mumbai Metro Line-III project, Campus Development Project of Indian Institute of Technology, Hyderabad (Phase 2), and the Tamil Nadu Investment Promotion Programme.

It would be important to monitor the progress made in the implementation of the Western Dedicated Freight Corridor (DFC), Chennai-Bengaluru industrial corridor and the Delhi-Mumbai Industrial Corridor (DMIC), which are being executed with support from Japan. These projects will have large positive impact on the manufacturing industry in India.

The promotion of people-to-people exchange between the two countries, particularly youth exchanges and tourism, would help build trust and unlock a huge potential for cooperation. The two countries are cooperating with each other at multilateral fora such as the East Asia Summit (EAS). This is a forum for dialogue on broad strategic, political and economic issues of common interest and concern with the aim of promoting peace, stability and economic prosperity in East Asia.

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