



# Boosting India-Japan Services Trade

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## India-Japan Economic Partnership

India and Japan have historically shared a close and warm friendship, that has evolved over the years, as a result of the many complementarities the two economies share. With the global trading environment altered greatly in the post-Covid era, the two Asian economies and their strong economic partnership could prove to be strategically significant as a stabilizing force for the Asian region as well as for the entire world.

While Japan is a key participant across multiple sectors in India, India also has to offer a conducive sourcing and business environment that can be effectively leveraged by Japanese companies. There is thus huge potential for strengthening and expanding this partnership further.

While many new and exciting trading and investment opportunities are emerging in India, a particular potential area for expanding trade and investment is services. With both economies witnessing significant expansions in their services sectors over the last few years, there is significant scope for both to mutually benefit from one other by stepping up bilateral trade in services. The India-Japan Comprehensive Economic Partnership (CEPA) is a strong platform through which this partnership can be strengthened further.

With this background, this paper provides an overview of services trade for both economies and how it has evolved over the years. By conducting a Revealed Comparative (RCA) analysis, this paper identifies potential sectors of interest that would help both India and Japan to mutually benefit from each other, by stepping up bilateral trade in these areas.





Further, the paper identifies issues and concerns from both sides relating to the CEPA and provides recommendations and remedial measures for a way forward.

## India Japan Comprehensive Economic Partnership (IJCEPA)

India and Japan agreed to sign the IJCEPA for establishing a free trade area with the objectives of expanding the bilateral relationship. The signing of the historic agreement and its implementation since August 2011 have significantly accelerated the economic and commercial ties between the two partners, creating new avenues and opportunities for businesses.

The trade agreement provides for an institutional mechanism to improve the business/investment environment in the economies and aims to enhance and liberalize trade in goods, services and investment flows. The agreement covers wide ranging sectors and features chapters on Rules of Origin, movement of natural persons, services liberalization, intellectual property, telecom, financial services, among many others.

The IJCEPA is also the deepest Free Trade Agreement (FTA) that India has undertaken with any partner.

However, there are several areas of concerns from both sides that need to be addressed and improved. While Japan is a significant global player in services, the presence of Japanese services and firms in the Indian market is much less than in other parts of Asia. This trend needs to be reversed.

Sectors of interest to the two sides are IT, accounting, financial services, infrastructure related services, legal services, retail, telecommunication services, tourism and health services. In addition, to promote Indian investment in services in Japan, barriers like economic needs test for services export from India to Japan should be addressed as soon as possible.

Further, both economies need to explore a wider range of products and services for meeting demand needs.

It is imperative that concerns from both sides are addressed and cooperation mechanisms are leveraged to unleash the full potential of the CEPA.

## Japan Services Trade

Services exports in Japan grew from US\$ 134.41 billion in 2010 to US\$ 163.79 billion during 2015. Services exports grew further over the last 5 years to reach US\$ 205.06

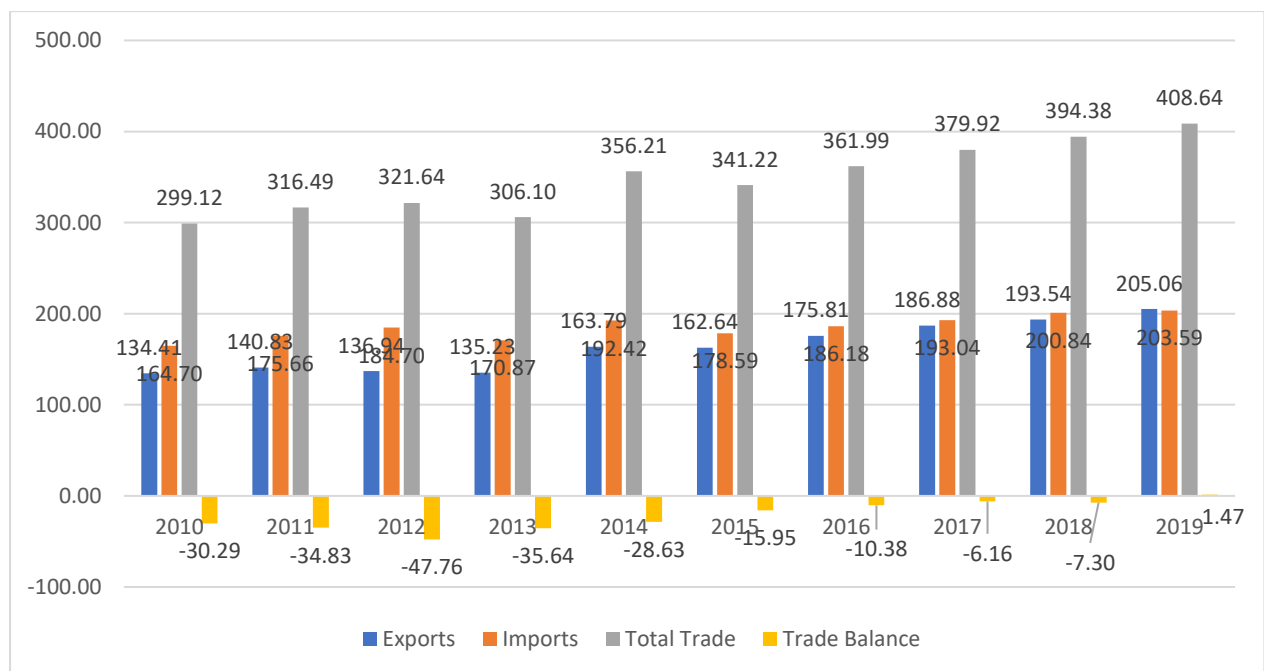
billion during 2019. The compound annual growth rate (CAGR) came in at 4.31% over the ten-year period between 2010 and 2019.

On the other hand, services imports in Japan grew from US\$ 164.70 billion in 2010 to US\$ 192.42 billion in 2015, increasing to reach US\$ 203.6 billion in 2019. Over this ten-year period, CAGR stood at 2.14%.

Total services trade in Japan grew from US\$ 299.12 billion in 2010 to US\$ 356.21 billion in 2015. Post 2015, services trade moderated slightly before increasing again and reaching US\$ 408.64 billion in 2019. Between 2010 and 2019, total services trade in Japan grew at a CAGR of 3.17%.

Japan's trade balance in services has improved significantly over the last decade, shifting from a deficit of US\$ (-) 30.3 billion to a positive US\$ 1.47 billion in 2019.

**Chart 1: Japan's Services Trade: 2010 – 2020 (US\$ billion)**



**Source:** *International Trade Centre*

### Top Services Exports

Japan's services export profile is aligned with its manufacturing and R&D prowess. Charges for intellectual property (IP), business services, travel and transport services were the top sectors in terms of export values (Table 1, Annex) during 2019. Intellectual property services export stood at US\$ 46.73 billion, while other business services and travel service exports stood at US\$ 46 billion and US\$ 45 billion respectively.

IP services in 2019 accounted for around more than 23% of total service exports, while other business services and travel services both accounted for around 22% of the total.



Manufacturing services on physical inputs; telecom, computer and information services; travel, maintenance and repair and insurance services were the fastest growing sectors in terms of CAGR. Manufacturing services recorded the highest CAGR, at 32.52% over the 2015-2019 period, followed by telecom, computer and information services, which registered a CAGR of 15.67% during the same period. This reflects the country's participation in information age technologies and embedded software.

### Top Services Imports

The top imported services during 2019 included other business, transport, charges for the use of intellectual property, travel, and telecom, computer and internet services (Table 2, Annex). Total imports of other business services stood at around US\$ 66 billion, followed by transport and intellectual property services, imports of which stood at US\$ 34 billion and US\$ 26 billion respectively.

Other business services imports accounted for around 32% of Japan's total service imports while transport service imports accounted for around 17% of the total.

Maintenance and repair, insurance and pension, IP, telecom and financial services were some of the fastest growing import services. Maintenance and repair services recorded the highest CAGR at 13.26%. Insurance and pension services grew at a CAGR of 11.7% and IP at 8.7%.

## India Services Trade

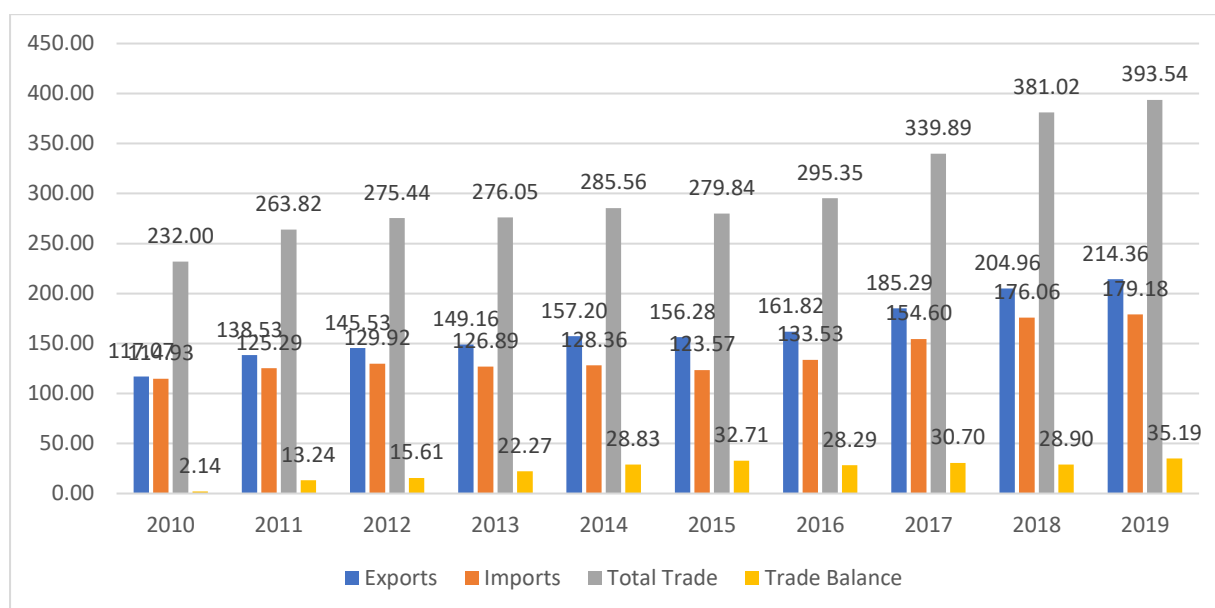
For India, services trade represents a source of macroeconomic strength. Its services exports have been steadily increasing over the last 10 years. It increased from US\$ 117 billion in 2010 to US\$ 157 billion in 2015 and further to US\$ 214.36 billion in 2019. Between 2010 and 2019, India's services exports recorded a CAGR of 6.24%.

On the other hand, India's services imports grew from around US\$ 115 billion in 2010 to US\$ 128.36 billion in 2015. India's services imports stood at US\$ 179.18 billion in 2019. Over the ten-year period, India's services imports recorded a CAGR of 4.54%.

Total services trade increased from US\$ 232 billion to US\$ 381 billion between the 2010-2019 period and grew at a CAGR of 5.43%.

India has consistently maintained a favourable trade balance in services trade with the rest of the world over the last 10 years. The trade balance stood at US\$ 2.14 billion in 2010. The trade balance significantly improved in India's favour and increased to US\$ 28.83 billion during 2014 and stood at US\$ 30.7 billion during 2017. During 2018, India's balance of trade in services stood at around US\$ 29 billion.

Chart 2: India's Services Trade: 2010 – 2020 (US\$ billion)



Source: International Trade Centre

### Top Services Exports

Some of India's top service exports included (Table 3, Annex) other business services<sup>1</sup>; telecom, computer and information services; travel and transport services. During 2019, other business services exports were valued at US\$ 74 billion, followed by telecom and travel services, at US\$ 65 billion and US\$ 31 billion respectively.

India's travel service exports accounted for around 41% of India's total services while other business services accounted for more than 34% of the total.

In 2019, other business services accounted for more than 35% of India's total services exports, followed by telecommunication, computer and information services accounting for 31% of the total. India's travel services accounted for more than 14% of India's total services exports during the same year.

Some of the fastest growing sectors were construction, IP services and personal, cultural and recreational services and recorded CAGRs of 14.5%, 13.11 % and 10.26% respectively. The profile of the fast-growing sectors mirrors India's growing prowess in creation of intellectual property and project exports, which is aligned with its demographic profile and education levels.

<sup>1</sup> Other business services comprise primarily of technical, trade related and other business services; professional and management consulting services; and research and development (R&D) (Source: Intracen)



## Top Services Imports

Transport services was the top import that recorded an import value of US\$ 67.65 billion during 2019, followed by other business services, which stood at US\$ 46 billion and travel services at US\$ 23 billion (Table 4, Annex).

India's imports of transport services accounted for more than 37% of India's total services imports while imports of other business services accounted for around 26% of the total.

Maintenance and repair, construction, telecom, manufacturing and personal services were some of the fastest growing sectors. Maintenance and repair services recorded a CAGR of 31.74% during the five-year period between 2015 and 2019, followed by construction and telecom import services that recorded CAGRs of 23% and 20.36% respectively.

## Bilateral Trade in Services

As per OECD estimates, Japan's services exports to India stood at US\$ 2,574 million in 2018<sup>2</sup>, while India's exports to Japan stood at US\$ 1,845 million.

During 2018, Japan's transport service exports to India came in at US\$ 347 million (Table 1), the highest among all the sectors, followed by other business services at US\$ 211 million. Japan's services exports of financial services to India stood at US\$ 26 million while Japan's exports of Insurance and pension services were at US\$ 10 million, during the same year.

Japan's strengths in export of transportation services to India is evident, which went up from US\$ 361 million in 2014 to US\$ 439 million in 2017 before moderating at US\$ 347 million in 2018. In these years, several services exported to India have declined significantly in value.

On the other hand, India's exports of business services to Japan stood at US\$ 747 million during 2018, highest among all other sectors, indicating India's strengths in the sector. India's services exports to Japan in transport stood at US\$ 93 million during 2018. Its exports of financial services and insurance and pension services to Japan during the same year stood at US\$ 26 million and 10 million respectively.

Over the last few years, India has consistently performed well in terms of its services exports of other business services to Japan, which went up from US\$ 641 million in 2014 to US\$ 747 million in 2018.

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<sup>2</sup> India-Japan CEPA: An Analysis, FT (NEA) Division, Department of Commerce, Ministry of Commerce & Industry, June 2020



Table 1: India-Japan Bilateral Trade in Services by Sector: 2014-2018  
(US\$ million)

	India's Exports to Japan					India's Imports from Japan				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
<b>SECTORS</b>										
<b>Transport</b>	48	65	54	73	93	361	443	374	439	347
<b>Insurance &amp; Pension Services</b>	4	4	4	2	2	8	8	10	8	10
<b>Financial Services</b>	19	26	23	29	31	72	41	24	23	26
<b>Other Business Services</b>	641	702	758	798	747	386	258	214	211	211

**Source:** India-Japan CEPA: An Analysis, FT (NEA) Division, Department of Commerce, Ministry of Commerce & Industry, June 2020

The two countries have taken several measures to promote bilateral trade in services which is included in the IJCEPA. India has committed a total of 90 subsectors under the IJCEPA, more than its commitment under GATS or in the comprehensive agreements with South Korea and Singapore. Similarly, Japan has made commitments under 141 subsectors. Most of these are under business services and transport services.<sup>3</sup>

The Social Sector Agreement (SSA) between India and Japan was signed in Tokyo during November 2012 and came into force from 1<sup>st</sup> October 2016<sup>4</sup>. The agreement will protect the interests of Indian professionals and skilled workers by ensuring that they will not pay double social security taxes which will help mitigate higher costs of India-Japan international assignments<sup>5</sup>. It will also facilitate easy remittance of benefits, aggregating contribution in both countries to prevent loss of benefits.

Visas for highly skilled professionals have been facilitated by the Japanese government to encourage Indian IT companies to obtain residency in Japan. The participation of the Japanese government in Indian skill development and manufacturing sectors through the Technical Intern Training Program and Japan India Institutes of Manufacturing also boost bilateral services engagement by creating a pool of talent that is familiar with Japanese culture and ways of doing business. India and Japan entered into an agreement in

<sup>3</sup> [https://www.iimb.ac.in/sites/default/files/inline-files/IJSC-rupa\\_chanda-kalpana\\_tokas.pdf](https://www.iimb.ac.in/sites/default/files/inline-files/IJSC-rupa_chanda-kalpana_tokas.pdf)

<sup>4</sup> [https://mea.gov.in/press-releases.htm?dtl/27088/IndiaJapan\\_Social\\_Security\\_Agreement](https://mea.gov.in/press-releases.htm?dtl/27088/IndiaJapan_Social_Security_Agreement)

<sup>5</sup> <https://home.kpmg/xx/en/home/insights/2016/11/flash-alert-2016-140.html#:~:text=The%20Social%20Security%20Agreement%20between%20India%20and%20Japan%20that%20was,effect%20from%201%20October%202016.>



September 2017 to set up 100 new Japanese language courses and a Teacher Training Centre, which came up in July 2018<sup>6</sup>.

## Potential Sectors of Collaboration

In order to determine the export service sectors which have potential and will play a critical role in boosting India-Japan services trade, this paper adopts a Revealed Comparative Advantage (RCA) analysis approach.

The RCA is frequently used to assess a country's export potential or competitiveness in specific products or services. The Revealed Comparative Advantage (RCA) index is a commonly used trade indicator in international economics, to assess a country's relative advantage or disadvantage in a specific class or category of products. This measure also provides valuable information about potential trade prospects with new partners (See Annex for Data and Methodology).

### Potential Sectors from RCA Analysis

For Japan, the RCA index is greater than unity for the four sectors:

- IP
- Other business services
- Construction

These are the identified Japanese sectors which have a competitive advantage in the world, relative to others and thus have high export potential (Table 5, Annex)<sup>7</sup>.

For India, the RCA analysis reveals that India has high competitive advantage in service exports of (Table 6, Annex):

- Telecommunications,
- Computer and information services
- Other business services sectors

These sectors are identified as potential sectors for collaboration.

Additionally, as revealed from the CAGR analysis conducted earlier, India could also significantly benefit from some of Japan's fast-growing export services:

- Maintenance and repair
- Travel
- Telecom

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<sup>6</sup> <https://www.mea.gov.in/press-releases.htm?dtl/30142>

<sup>7</sup> Government goods and services are not considered as these are not tradeable items

India is a big importer of these services (Table 2 and Table 4).

Further, as India is a major importer of manufacturing services, it could significantly gain from Japan's strengths in different areas such as new manufacturing, innovation and R&D. This is particularly relevant with the digital space gathering momentum in both economies.

Japan, on the other hand, could gain from India's fast-growing export services such as construction, personal services and transport (Table 3).

## Japan's potential exports to India

### IP

Japan's intellectual property (IP) services have registered strong growth over the years. The country is a key global player in the sector and ranks 16<sup>th</sup> in the Global Innovation Index, with a rank of 18 in innovation output, as of 2020<sup>8</sup>.

Sectors such as automotives and high-tech manufacturing are driving growth of IP exports. IP related services such as robotics and medical care are also expected to generate significant growth for the country<sup>9</sup>.

For India, Japan has been a key source country for technology and its royalty payments to Japan have been notable. For example, Maruti Suzuki India Limited paid about US\$ 510 million to its Suzuki parent in fiscal year 2020<sup>10</sup>. While India is attempting to lower royalty payments, it would continue to depend on Japan for technology tie-ups and these could go up with Industry 4.0 expanding in the country.

The IJCEPA features a chapter on intellectual property rights that looks into areas of potent protection, protection of well-known trademarks, and accelerated applications for trademark applicants among others<sup>11</sup>.

### Construction

With the Japanese Government stepping up its spending on engineering facilities and the tourism sector, Japan's construction industry regained its growth momentum, with output expanding by 2.6% in real terms in 2017.<sup>12</sup>

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<sup>8</sup> <https://www.globalinnovationindex.org/analysis-economy>

<sup>9</sup> <https://www.globalinnovationindex.org/analysis-economy>

<sup>10</sup> <https://auto.hindustantimes.com/auto/news/maruti-hyundai-among-indian-carmakers-asked-to-cut-royalties-to-foreign-parents-41597745222816.html>

<sup>11</sup> [https://www.jetro.go.jp/ext\\_images/jetro/topics/pdf/1409\\_topics1\\_1.pdf](https://www.jetro.go.jp/ext_images/jetro/topics/pdf/1409_topics1_1.pdf)

<sup>12</sup> <https://www.businesswire.com/news/home/20190621005295/en/Construction-in-Japan-Key-Trends-Opportunities-to-2022---ResearchAndMarkets.com>



The sector is expected to generate further growth supported by the Government's efforts in expanding investments in manufacturing, energy, healthcare, tourism and infrastructure projects, including road and airport infrastructure, developing expressways, etc.

Renewable energy infrastructure is a potential sector for major investments, with many public and private infrastructure projects in the pipeline and the Government's target to increase the share of renewable energy in the country's energy mix from 15.6% in 2017 to 22-24% in 2030<sup>13</sup>.

This is a possible area for joint collaboration for the two countries, with the sector expected to generate large scale employment and generate strong growth in the coming years. Further, India is embarking on the National Infrastructure Pipeline which aims to spend Rs 110 trillion in the next few years. Japanese companies can participate in the tenders for transport, power, and renewable energy. Japan's collaboration in high-speed rail development in India also promises to open new opportunities for export of construction services.

## Telecom

Japan's telecommunication industry is one of the most developed in the world and is a dominant market in the Asian region.

The country has already achieved a broadband penetration rate of 100% and has implemented several measures to step up efforts on expanding free Wi-fi accessibility<sup>14</sup>.

With major mobile service providers such as NTT DOKOMO, KDDI and Softbank Mobile looking to offer next generation 5G cellular data services by 2020 and the Government's intent to open its mobile market to new players, the sector presents many opportunities for collaboration with India.

Most recently, Japanese telecom operator Rakuten Mobile announced the possibility of a technical collaboration with Reliance Jio for development of technologies in the 5G domain and expressed interest to work with Indian telecom and IT service providers to develop a complete supply chain for the Rakuten Communications platform<sup>15</sup>.

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<sup>13</sup> <https://www.businesswire.com/news/home/20190621005295/en/Construction-in-Japan-Key-Trends-Opportunities-to-2022---ResearchAndMarkets.com>

<sup>14</sup> <https://thelawreviews.co.uk/edition/the-technology-media-and-telecommunications-review-edition-10/1211263/japan>

<sup>15</sup> <https://telecom.economictimes.indiatimes.com/news/japanese-telco-rakuten-says-collaboration-with-jio-on-5g-possible-wants-india-to-develop-telecom-supply-chain/78146980>

## Travel

Inbound tourism in Japan is one of its significant engines for economic growth. The Japanese Government had set targets of doubling inbound tourism and capturing a greater share of international travelers by 2020, with the country set to host the Olympic and Paralympic games during the same year.

However, the Covid-19 pandemic has now led to the postponement of the Games to 2021. However, Japan is strongly focused on rebuilding its tourism industry, with new strategies and effective measures in place, in a post-Covid world.

Despite the setback, Japan's tourism industry has strong potential and scope in the coming years, which has seen a growing number of international tourists, especially from the Asian region, on account of the declining value of the Yen and easing of visa requirements<sup>16</sup>.

As the pandemic subsides, Japan's travel and tourism sector could present several opportunities for Indian tourists as the Japanese tourist industry comes up with new and innovative ways to offer attractions.

## India's potential exports to Japan

### Telecom

The Indian telecom sector has registered rapid growth over the last few years, fueled by high consumer demand. In 2019, India surpassed the US to become the second largest telecommunications market in the world, with a subscriber base of 1.20 billion<sup>17</sup>.

The gross revenue of the sector stood at US\$ 17.4 billion<sup>18</sup> in FY 20 (April-September 2019) and it attracted foreign direct investment inflows to the tune of US\$ 37.37 billion during the April 2000-March 2020 period, as per Department for Promotion of Industry and Internal Trade (DPIIT) estimates.

With declining data costs and rise in mobile-phone and internet penetration, the Indian telecom sector is expected to expand further and create opportunities for new businesses. India can provide low-cost telecom services to Japan and also offer competitive consultancy and professional services related to the sector.

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<sup>16</sup> <https://www.japantimes.co.jp/life/2020/06/06/travel/tourism-industry-coronavirus/>

<sup>17</sup> <https://www.ibef.org/industry/telecommunications.aspx>

<sup>18</sup> <https://www.ibef.org/industry/telecommunications.aspx>





## Computer and Information Services

India ranked 4<sup>th</sup> in the world in terms of growth in the share of Information and Communication Technology (ICT) sector's value added in GDP, during 2010-17<sup>19</sup>. The growth was driven mainly by computer services.

India has a booming IT market, with Indian IT and Business Process Management (BPM) companies together, having set up more than 1000 global delivery centres in around 80 countries of the world<sup>20</sup>. The sector's has significant potential and the sector's strengths have attracted significant overseas investments.

India's computer software and hardware sector attracted FDI inflows amounting to around US\$ 45 billion between April 2000 and March 2020 period, with the sector ranking second in terms of FDI inflows as per DPIIT estimates.

While language presents a problem between the two countries, many Indian companies based in third countries are providing software services to Japanese companies. Further, with expansion in Internet of Things, automation and robotics, embedded software development provides a huge source of collaboration with India's vibrant IT services space as Japanese companies are in the lead in developing customer-focused high-technology manufacturing goods.

Japanese and Indian companies can also collaborate to develop services for third countries. In addition, Japanese companies must look at India as a source of new product development and design as is being done by many global companies in India.

It is notable that venture capital firms have emerged as significant seed investors in Indian startups which is a dynamic sector riding on the rapid growth of digital literacy and services in India. Softbank and other firms are contributing to entrepreneurship in India in a big way which could also lead to business ventures in software exports to Japan.

## Other business services

Among other business services, India is a leading provider of professional and management consulting services to the world. The potential revenue from these services is estimated to be huge, with India expected to generate US\$139-365 billion<sup>21</sup> of additional revenue from these services over 2002-20, which in turn is expected to boost India's GDP growth further.

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<sup>19</sup> UNCTAD Digital Economy Report, 2019

<sup>20</sup> <https://www.ibef.org/industry/information-technology-india.aspx>

<sup>21</sup> India's New Opportunity – 2020, Report of the High Level Strategic Group, BCG & CII Report <https://www.ibef.org/download/IndiaNewOpportunity.pdf>

India also presents big opportunities to investors with respect to its R&D sector. Some of the leading sectors include digital healthcare, the automotive industry and the software industry, which match well with Japanese requirements. With a 7-8% growth rate, the semiconductor subsector, characterized by rapid technological changes is a potential sector for major investments and is one of the top 5 industry spenders on R&D<sup>22</sup>.

## Tourism

About 20 million Japanese tourists travel overseas each year. Post-Covid, the number which has slumped during 2020 is likely to see some uptick. India received few Japanese visitors and Japan is not among the top 15 source countries for its tourists. However, with a strong cultural connect and the Buddhism legacy in India as well as exotic locales, a pitch should be made to promote India as a tourist destination for Japanese people.

## Other Areas of Collaboration

Given that global services trade can be expected to expand, including through the impact of Covid-19 on the world economy, the two countries must together target emerging sectors for exchange. With Japan as an innovative and externally engaged economy and India as a source of skilled labour, potential benefits to both sides could be significant.

### Human Resource Development

Indian and Japan could significantly gain from cooperation in the field of human resources. Measures must be undertaken to strengthen the functioning of the Japan India Institute of Manufacturing (JIM) program that was established under the initiative of the governments of Japan and India, as well as expand programs of undergraduate and graduate student exchange, corporate internships, language training, and vocational training. Japan is also working on skill development in India and can set up training establishments catering specifically to its particular needs. The Japan Technical Intern Training Program which provides training to Indian workers in Japan for a period of 3-5 years helps understanding of Japanese culture and can be a valuable foundation for services trade.

### Space Cooperation

Japan and India are key actors in using space for research and development, earth observation, outer space surveillance, communication and satellite navigation. Closer cooperation on transparency and confidence building measures in outer space, as well as on space security, safety and space debris mitigation should be developed.

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<sup>22</sup> <https://www.investindia.gov.in/team-india-blogs/research-and-development-india-overview>



The technological collaboration between Japan Aerospace Exploration Agency (JAXA) and the Indian Space Research Organization (ISRO) in the Joint Lunar Polar Exploration Mission is a welcome measure. With the Indian space industry open to private sector participation, both the countries can consider stepping up business cooperation.

### **Cybersecurity**

India's major strength lies in its large pool of IT professionals, where Japan is facing a shortage of trained cybersecurity experts. For Japan, its strength lies in its public-private partnership, which is essential to maximize the country's cyberdefences. Thus, both countries can mutually benefit from each other and collaboration in these areas would enhance prospects for both.

There is a need for industry to be involved in fostering cybersecurity collaboration between India and Japan to protect critical infrastructure. Both countries can share cyberthreat intelligence to make cyberattacks cost-prohibitive to attackers.

## **Recommendations for Boosting Indian Services Exports to Japan**

CII has been actively engaged with governments, industry and institutions of both countries and provided a strong platform for discussions to evolve joint solutions. These discussions have identified several recommendations for policymakers of both sides which would help resolve issues in trade in services between the two countries.

### **Certificate of Eligibility**

Indians over the years have been facing hurdles with regards to Visa applications and Certificate of Eligibility in Japan. The CoE process currently ranges between 6-7 weeks for individual applicants currently and extends between 2-3 months for dependent applicants which often leads to procedural delays.

This is particularly important for the Indian IT companies as they require to plan ahead, and processing time delays greatly impacts the ability of Indian companies to operate competitively and efficiently in the market.

Reducing processing times and improving Japanese procedures in issuing CoE is critical for the Indian companies.

### **Market Access in IT, IT-enabled services & professional services**

The size of Japan's IT services market is more than US\$ 125 billion. However, the Indian IT sector has less than 2% share, despite being present in Japan for over a decade.

The Keiretsu model in Japan's IT services market, makes it difficult for Indian IT firms to directly approach customers. This model only allows the top tier companies, such as Fujitsu, NEC and Hitachi to work as partners with the clients and then, outsource to various small and mid-size providers. As a result, despite having significant competitive strengths in the sector, Indian companies often end up as tertiary service providers.

Public sector outsourcing to foreign companies is also negligible, which also limits market access to Indian IT companies. Entry of Indian IT companies will help Japanese business to improve their IT systems and thereby their capacity to deliver.

India's IT software services face challenges in Japan owing to factors such as complex procedures for contract qualifications for overseas companies, lack of an outsourcing culture and time taken to close deals.

Further, Japanese companies often do not follow standard Software Development Lifecycle (SDLC) and require high level customization involving high costs. These factors hamper the effective functioning of Indian IT companies.

Greater market access in IT, IT-enabled services & professional services by promoting facilitative contract procedures would encourage higher participation of competitive Indian companies in the Japanese software market and assist in their market development, product design and software management.

### **Mutual Recognition Agreement for Service Professionals**

There is a need to introduce and conclude mutual recognition agreement (MRA) for professional qualifications in professional services, such as lawyers' accountants and nurses. This is critical for institutionally accessing markets abroad.

India has already signed its first MRA in nursing with Singapore which will pave the way for India's healthcare services as Singapore has agreed to expand coverage of Indian nursing institutions by recognizing seven nursing institutions in the MRA<sup>23</sup>.

However, despite a specific provision in CEPA, there has been no progress in the negotiations of MRA on the nursing sector. The relevant Sub Committee under CEPA needs to meet and introduce MRAs on priority. Concluding MRA's between standards setting bodies can significantly boost trade and investments in both countries.

### **Non-Tariff Barriers (NTBs)**

Changes in the global trading environment have led to the introduction of new standards in many markets. This in turn has led to the imposition of tariff and non-tariff measures,

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<sup>23</sup> [https://www.business-standard.com/article/news-cm/india-signs-mutual-recognition-agreement-mra-in-nursing-with-singapore-118060101073\\_1.html](https://www.business-standard.com/article/news-cm/india-signs-mutual-recognition-agreement-mra-in-nursing-with-singapore-118060101073_1.html)



including in Indian and Japan, that adversely impacts exports of services for both countries.

Japan has placed import prohibitions and quantitative restrictions on imports from India, including on services such as IT and health. Business visas processes need to be fast-tracked to ensure quick visa availability for Indian professionals.

The language barrier is also a significant deterrent to exporting services to Japan. The Japanese language facilities being set up in India should be better promoted, strengthened and ensure quality of students and teachers is adequate to meet business requirements.

## Recommendations for Boosting Japanese Services Exports to India

Japanese businesses have found it challenging to do business in India on account of regulatory environment. However, in the manufacturing sector, many Japanese companies have been able to build a significant footprint in India and enjoy major successes, as exemplified by companies such as Maruti Suzuki, Hitachi, Toyota, and others. The same experience can be replicated in the services space as well with a more facilitative climate.

### **Streamlining of filing procedures**

Japanese taxpayers and recipients need to establish links through the Goods and Services Network (GSTN) portal for Goods and Services Tax (GST) filing purposes. The time taken for tax processing, gaps in tax amount declared often lead to late-filing issues. Further, a complicated accounting methodology for the refund procedure for GSTs including input tax credit refunds often result in procedural delays.

To resolve procedural time delays, system revisions must be made to facilitate smoother corporate business operations. Further, tax refund procedures need to be streamlined to ensure refunds are executed in a time bound manner.

### **Implementation of Visa-on-Arrival Program**

The Japanese see the lengthy time periods for issuance procedures and understaffed visa issuance counters in India as inefficient.

The simplification of tourist visa procedures or entire elimination is required for boosting bilateral flows of people between India and Japan. It is also recommended that visa applicants obtain their visas well in advance from the Indian Embassy in Japan.



## Protection and international conformity of intellectual property rights

A Bilateral Patent Prosecution Highway (PPH) program was signed between Japan's Patent Office (JPO) and Indian Patent Office (IPO) on November 20, 2019. Guidelines issued under the PPH cooperation aims to address the procedures that applicants need to undertake to request expedited admission<sup>24</sup>. It is anticipated that the PPH approach will significantly reduce waiting periods, shortening the time from application to issuance of a notice of results from the first examination (First Action [FA]) to 12 months or less, and, for the notice of results from the final examination, to 18 months or less. This will facilitate the launch of PPH processing operations and improved office procedures will enable early acquisition of patent rights with reduced examination backlogs.

Upon launch, the PPH was limited to handling up to 100 patent applications per year on a first come first serve basis and limitations were imposed on patent fields. Going forward, it is recommended that these limits on the number of applications and covered fields be removed.

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<sup>24</sup> <http://www.ipindia.nic.in/newsdetail.htm?593>



## Way Forward

India and Japan have shared strong ties historically that can be further strengthened through greater cooperation and closer engagement, leading to greater growth and economic prospects for both sides as well as the entire Asian region.

There is a need to increase bilateral trade between the two partners, specifically in the area of services trade where there is significant untapped potential. Both countries can significantly benefit and collaborate in areas such as Intellectual Property, transport, telecom, construction, maintenance and repair, manufacturing and travel services.

For India, services of telecommunications, computer and information services and other business services sectors are particularly important as it has high competitive advantage in these fields.

Another potential sector of collaboration would be in the area of innovation or 'new manufacturing' services. With the digital space gaining momentum in both economies, and digital technologies such as Internet of Things (IoT) and Artificial Intelligence (AI) gaining widespread popularity, India can gain from Japan's strengths in these sectors.

Increasing India's access to Japan's services sector by expediting the conclusion of mutual recognition agreements for professional qualifications and standards setting and overcoming non-tariff barriers are the primary areas that require urgent attention to boost bilateral flows between the countries. India should also request Japan to fix a quota for Indian high-skilled and semi-skilled workers.

For stepping up bilateral trade in services, CEPA, which aims to enhance trade in services and assures flow of human resources between the two countries, must be utilized more effectively. The CEPA will play a critical role in expanding bilateral trade and investment flows between India and Japan.

## Annex

**Table 2: Growth of Japan's Services Export: 2015 – 2019 (US\$ billion)**

Code	Service label	Exported Value in 2015	Exported Value in 2016	Exported Value in 2017	Exported Value in 2018	Exported Value in 2019	CAGR %
<b>S</b>	All services	162.64	175.81	186.88	193.54	205.06	4.74
<b>SOX</b>	Memo item: Commercial services	158.30	170.66	182.03	188.81	200.54	4.84
<b>8</b>	Charges for the use of intellectual property n.i.e.	36.45	39.27	41.74	45.48	46.73	5.09
<b>10</b>	Other business services	34.08	39.31	41.22	42.09	45.79	6.09
<b>4</b>	Travel	24.98	30.68	34.05	42.10	45.22	12.6
<b>3</b>	Transport	35.39	31.70	34.15	28.91	26.22	-5.82
<b>7</b>	Financial services	10.30	11.84	10.50	11.52	13.79	6.01
<b>5</b>	Construction	10.70	9.37	10.39	9.25	10.61	-0.17
<b>9</b>	Telecommunications, computer, and information services	3.25	3.86	5.07	4.58	6.73	15.67
<b>12</b>	Government goods and services n.i.e.	4.34	5.15	4.85	4.73	4.52	0.82
<b>6</b>	Insurance and pension services	1.58	2.10	2.22	2.45	2.49	9.52
<b>2</b>	Maintenance and repair services n.i.e.	0.68	0.96	0.90	0.99	1.09	9.9
<b>1</b>	Manufacturing services on physical inputs owned by others	0.23	0.76	0.75	0.80	0.94	32.52
<b>11</b>	Personal, cultural, and recreational services	0.65	0.81	1.04	0.64	0.93	7.43

**Source:** *International Trade Centre*

**Table 3: Growth of Japan's Services Imports: 2015 – 2019 (US\$ billion)**

Code	Service label	Imported Value in 2015	Imported Value in 2016	Imported Value in 2017	Imported Value in 2018	Imported Value in 2019	CAGR %
<b>S</b>	All services	178.59	186.18	193.04	200.84	203.59	2.65
<b>SOX</b>	Memo item: Commercial services	176.63	184.15	191.02	198.84	201.71	2.69
<b>10</b>	Other business services	61.00	62.61	63.17	67.98	65.64	1.48
<b>3</b>	Transport	41.04	38.09	40.06	38.34	34.10	-3.64
<b>8</b>	Charges for the use of intellectual property n.i.e.	17.03	20.25	21.38	21.74	25.85	8.70
<b>4</b>	Travel	15.98	18.48	18.19	20.22	21.10	5.72
<b>9</b>	Telecommunications, computer, and information services	13.37	14.34	14.34	15.80	19.87	8.25
<b>6</b>	Insurance and pension services	4.79	5.73	6.33	7.14	8.33	11.70
<b>7</b>	Financial services	6.00	6.21	7.69	8.20	8.04	6.03
<b>5</b>	Construction	8.20	7.46	8.22	8.17	7.45	-1.90
<b>2</b>	Maintenance and repair services n.i.e.	3.45	4.44	4.93	5.49	6.43	13.26
<b>1</b>	Manufacturing services on physical inputs owned by others	4.49	5.16	5.49	5.10	4.19	-1.37
<b>12</b>	Government goods and services n.i.e.	1.96	2.03	2.02	2.00	1.87	-0.94
<b>11</b>	Personal, cultural, and recreational services	1.28	1.38	1.21	0.67	0.73	-10.62

Source: *International Trade Centre*

**Table 4: Growth of India's Services Exports: 2015 – 2019 (US\$ billion)**

Code	Service label	Exported Value in 2015	Exported Value in 2016	Exported Value in 2017	Exported Value in 2018	Exported Value in 2019	CAGR %
<b>S</b>	All services	156.28	161.82	185.29	204.96	214.36	6.52
<b>SOX</b>	Memo item: Commercial services	155.72	161.23	184.67	204.32	213.73	6.54
<b>10</b>	Other business services	50.10	54.66	59.87	65.22	74.00	8.11
<b>9</b>	Telecommunications, computer, and information services	55.05	53.80	54.38	58.19	64.93	3.36
<b>4</b>	Travel	21.01	22.43	27.37	28.57	30.72	7.89
<b>3</b>	Transport	14.32	15.18	16.98	19.00	21.13	8.09
<b>7</b>	Financial services	5.34	5.07	4.49	5.43	4.82	-2.03
<b>5</b>	Construction	1.48	2.08	2.28	3.18	2.91	14.48
<b>6</b>	Insurance and pension services	1.99	2.13	2.46	2.58	2.53	4.92
<b>11</b>	Personal, cultural, and recreational services	1.27	1.40	1.47	1.88	2.07	10.26
<b>8</b>	Charges for the use of intellectual property n.i.e.	0.47	0.52	0.66	0.78	0.87	13.11
<b>12</b>	Government goods and services n.i.e.	0.56	0.58	0.62	0.63	0.63	2.38
<b>1</b>	Manufacturing services on physical inputs owned by others	0.17	0.13	0.11	0.24	0.25	8.02
<b>2</b>	Maintenance and repair services n.i.e.	0.16	0.15	0.22	0.21	0.19	3.5

**Source:** *International Trade Centre*



**Table 5: Growth of India's Services Imports: 2015 – 2019 (US\$ billion)**

Code	Service label	Imported Value in 2015	Imported Value in 2016	Imported Value in 2017	Imported Value in 2018	Imported Value in 2019	CAGR %
<b>S</b>	All services	123.57	133.53	154.60	176.06	179.18	7.71
<b>SOX</b>	Memo item: Commercial services	122.69	132.85	153.96	174.92	178.07	7.73
<b>3</b>	Transport	52.26	47.95	57.06	66.73	67.65	5.3
<b>10</b>	Other business services	29.81	32.74	35.44	38.74	46.06	9.09
<b>4</b>	Travel	14.84	16.38	18.44	21.32	22.91	9.07
<b>9</b>	Telecommunications, computer, and information services	3.80	4.75	6.07	7.09	9.60	20.36
<b>SN</b>	Services not allocated	5.97	12.26	14.43	16.30	7.97	5.95
<b>8</b>	Charges for the use of intellectual property n.i.e.	5.01	5.47	6.52	7.91	7.89	9.51
<b>6</b>	Insurance and pension services	5.23	5.07	6.29	6.75	6.77	5.3
<b>11</b>	Personal, cultural, and recreational services	1.37	1.89	2.14	2.54	2.96	16.66
<b>5</b>	Construction	0.96	0.95	1.22	2.49	2.66	22.61
<b>7</b>	Financial services	3.12	5.02	5.80	4.04	2.28	-6.08
<b>2</b>	Maintenance and repair services n.i.e.	0.31	0.32	0.51	1.00	1.23	31.74
<b>12</b>	Government goods and services n.i.e.	0.88	0.68	0.64	1.13	1.11	4.75
<b>1</b>	Manufacturing services on physical inputs owned by others	0.03	0.05	0.04	0.04	0.07	18.47

Source: International Trade Centre

## Data and Methodology for RCA Analysis

World Bank's World Integrated Trade Solution (WITS) database defines the RCA index of country *i* for product *j* as the product's share in the country's exports in relation to its share in world trade:

$$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$$

Where  $x_{ij}$  and  $x_{wj}$  are the values of country *i*'s exports of product *j* and world exports of product *j*, where  $X_{it}$  and  $X_{wt}$  refer to the country's total exports and world total exports.

In other words, the numerator is the country's total exports of a specific product divided by country's total exports. On the other hand, the denominator is the world exports of the commodity divided by total world exports.

A value greater than one indicates that the country under consideration has a revealed comparative advantage in the product. Similarly, a value less than 1 signifies that the country has a revealed comparative disadvantage in the product.

In this paper, data on India and Japan's services exports for 2019 is obtained from International Trade Centre (ITC). Other variables such as world export of the specific export service, India and Japan's total exports of services and world exports of services are also obtained from the same database.

After collecting data on the relevant variables, the RCA index is computed for the various export services for India and Japan.

**Table 6: Japan Potential Services Exports**

Code	Service label	Japan's Exports (US\$ billion)	World Exports (US\$ billion)	Japan's Total Exports (US\$ billion)	World Exports (US\$ billion)	RCA Index
8	Charges for the use of intellectual property n.i.e.	46.73	406.08	205.06	6097.85	3.42
5	Construction	10.61	111.25	205.06	6097.85	2.84
12	Government goods and services n.i.e.	4.52	72.90	205.06	6097.85	1.84
10	Other business services	45.79	1350.85	205.06	6097.85	1.01

**Source:** CII calculations based on ITC data

**Table 7: India Potential Services Exports**

Code	Service label	India's Exports (US\$ billion)	World Exports (US\$ billion)	India's Total Exports (US\$ billion)	World Exports (US\$ billion)	RCA
10	Other business services	74.00	1350.85	214.36	6097.85	1.56
9	Telecommunications, computer, and information services	64.93	655.92	214.36	6097.85	2.82

**Source:** CII calculations based on ITC data

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