PROSPECTS FOR ENHANCING INDIA-JAPAN TRADE RELATIONS

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PROSPECTS FOR ENHANCING INDIA-JAPAN TRADE RELATIONS

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CONTENTS

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LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

Japan is a highly developed free market economy. It is the third largest economy in the world by nominal GDP[1] and fourth largest economy when measured by GDP at purchasing power parity[2]. Japan's industrial expansion post the second world-war made it a world leader in shipbuilding, electronics, precision optical equipment, steel, automobiles, and high technology goods. The growth of Japanese exports during the 1960s and 1970s was truly phenomenal. Merchandise exports grew at an average annual rate of 16.8% in the 1960s and at an average annual rate of 15.8% in the 1970s. From 1980 to 1989, however, export growth averaged 6% per year, less than half the level of growth experienced in the 1970s[3]. The economy experienced stagnation in the 1990s, which is also called as a lost decade.

Japan was struck hard by the 2008 financial crisis mainly because of fall in its exports as trade was hit heavily by the financial crisis. The economy contracted by 5.4% in 2009. In 2011, Japan was struck by a massive earthquake of magnitude 9 on the Richter scale and a resultant tsunami, which caused substantial destruction and enormous damage to life and property. Consequently, Japan again slipped back into recession. Post 2013, however, the economy of Japan has enjoyed an uptick on the back of monetary easing, flexible fiscal policy and structural reforms.

In 2020, as a result of the COVID-19 pandemic, the economy has contracted by 5.3%. In order to mitigate the impact of the pandemic, the Government of Japan, in April 2020, adopted the Emergency Economic Package of ¥117.1 trillion (which accounted for 20.9% of Japan's GDP in 2019). As a result of the stimulus package, the GDP is expected to grow by 2.3% in 2021, as the COVID-19 pandemic recedes and a pickup in private consumption and external sector leads to economic recovery. Japan has established itself as a leader in high technology driven industries

[1] IMF WEO Database, October 2020

[2] World Bank Data

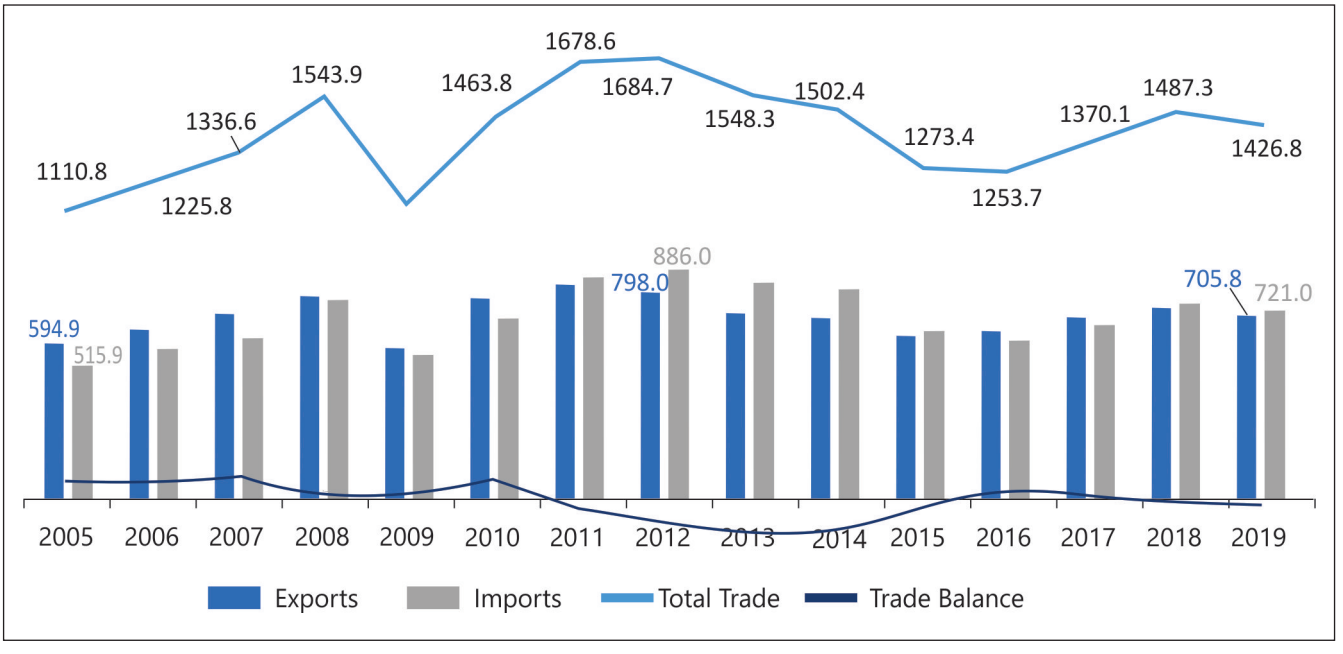
[3] Trade Statistics of Japan- Ministry of Finance, Government of Japan

such as machinery, robotics, semi-conductors, automotive and auto parts. As global trade recovers in 2021, external demand for Japan's goods and services is expected to rebound sharply.

Japan's Trade

In the recent years, Japan's total merchandise trade has increased from US$ 1.1 trillion in 2005 to US$ 1.4 trillion in 2019 **(Figure A)**. Merchandise exports increased from US$ 594.9 billion in 2005 to US$ 705.8 billion in 2019, on the other hand merchandise imports increased from US$ 515.9 to US$ 721 billion during the same period. Traditionally, Japan has enjoyed a trade surplus. However, post the Fukushima Nuclear Disaster of 2011, the country had to increase imports of fossil fuels and gas. The magnitude of such imports increased because of a weaker Yen and higher global oil and gas prices. Japan recorded trade surplus again in 2016 and 2017, however, the trade balance shifted back to deficit in 2018 and 2019 on the back of global trade wars, and the sluggish growth of the world economy.

Figure A: Evolution of Japan's Trade in Merchandise Goods (US$ bn, 2005-2019)



Source: ITC Trademap and India Exim Bank Analysis

Japan has Regional Trade Agreements (RTA) in force with the following countries: Brunei, Chile, European Union, India, Australia, Indonesia, Malaysia, Mexico, Mongolia, Peru, Philippines, Singapore, Switzerland, Thailand, Vietnam, UK and the US. Apart from these Japan has RTA with ASEAN and it has also signed the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP), and Regional Comprehensive Economic Partnership (RCEP). Japan's administration understands the importance of international trade in promoting economic growth, therefore, in "The Japan Revitalization Strategy of 2013", the administration had set a target of achieving 70 percent trade through Free Trade Agreements, which stood at 19 percent in 2013[4]. Japan is also currently negotiating trade agreements with Turkey, Colombia, and a trade agreement between Japan, China and South Korea[5].

Japan's exports were dominated by textiles in the 1950s, followed by steel and ships in the 1960s, and cars and consumer electronics in the 1980s. In recent years, the composition of exports and imports has continued to change as new players enter the global marketplace and technology evolves. However, transport vehicles, machinery and electrical equipment remain the top exporting item of the country. On the other hand, because of unavailability of fossil fuels, Japan relies heavily on import of mineral fuels, oils and products of their distillation (accounting for one-fifth of total imports in 2019), followed by electronics, machinery, optical equipment and pharmaceutical products.

In 2019, 19.9% of Japan's exports headed to the United States which amounted to US$ 140.5 billion. China was the second largest destination for Japanese exports in 2019, with exports worth US 134.7 billion (19.1% of total exports). In 2019, China was the most important source for imports for Japan. Japan's merchandise imports from China amounted to US$ 169.2 billion (23.5% of Japan's total imports in 2019). The US followed China as the second largest source of imports for Japan in 2019, with imports amounting to US$ 81.3 billion and a share of 11.3% in total imports on 2019.

India- Japan Trade Relations

Japan has been one of the most important economic partner for India's development. Japan has been extending bilateral loan and grant assistance to India since 1958 and is the largest bilateral donor for India[6]. Japanese Official Development Assistance (ODA) supports India's efforts for accelerated economic development particularly in priority areas like power, transportation, environmental projects, and projects related to basic human needs.

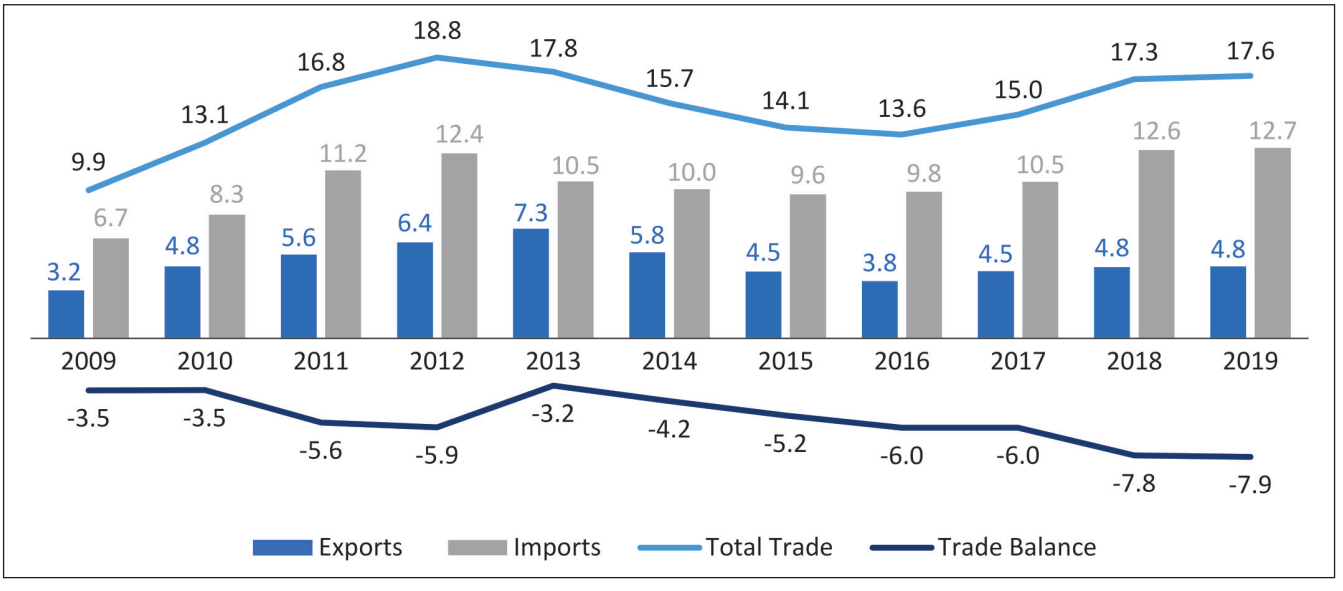
India and Japan signed the Comprehensive Economic Partnership Agreement (CEPA) on February 16th 2011, the CEPA came into force from August of the same year. The agreement aimed at eliminating tariffs on 90 percent of Japanese exports to India, such as auto parts and electric appliances, and 97 percent of imports from India, including agricultural and fisheries products, until

[4] Japan Revitalization Strategy, 2013
[5] Ministry of Foreign Affairs of Japan
[6] Japan- India Relations, Ministry of External Affairs of India

2021. The CEPA with Japan is one of the most comprehensive trade agreements that India has entered with any country.

In the recent times, India's total trade with Japan has increased from US$ 9.9 billion in 2009 to US$ 17.6 billion in 2019 **(Figure B)**. While exports have increased by 49.8% from US$ 3.2 billion in 2009 to US$ 4.8 billion in 2019, imports have increased by around two-fold from US$ 6.7 billion in 2009 to US$ 12.7 billion in 2019. The total trade between the two countries peaked at US$ 18.8 billion in 2012. India's exports to Japan peaked in 2013 at US$ 7.3 billion and India's imports from Japan were maximum in 2019 at US$ 12.7 billion. India has been persistently running trade deficit with Japan, which has worsened over the years. India's trade deficit with Japan which stood at US$ 3.5 billion in 2009 has ballooned to US$ 7.9 billion in 2019.

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



Source: ITC Trademap and India Exim Bank Analysis

India's major exports to Japan in 2019 were petroleum products (12% of total exports in 2019), followed by organic chemicals (11.9%), fish and aquatic invertebrates (8.7%), natural or cultured pearls, precious or semi-precious stones (8.6%), and machinery and mechanical appliances (6.3%). As regards imports, India's top import items from Japan in 2019 were machinery and mechanical appliances (25.9% of total imports), followed by electronics (11.1%), iron and steel (9.1%), plastics (7.4%), and copper and its articles (6.1%).

Reflecting sharp rise in imports from Japan, sectors which present the largest trade deficit for India in 2019 are machinery (deficit of over US$ 3 billion), electrical and electronic equipment (deficit of

around US$ 1.2 billion), iron and steel, plastics, copper and its products and so on. Thus, though it is noteworthy that the total trade between both countries has almost doubled in last 12 years, the widening trade deficit is a matter of concern for long term sustainability of bilateral trade relations.

Enhancing Trade with Japan: Addressing Trade Deficit

Growth in India's imports from Japan has outpaced growth in India's exports to Japan during this time. To enhance bilateral trade relations, and in particular to address India's rising trade deficit with Japan, it would be pertinent to identify and focus on potential items of exports from India to Japan. This, in turn, could be in line with India's global export capability as also demand existing in Japan as exhibited by the rising trend in major import items of Japan. Concomitantly, such a strategy would also serve to enhance India's ranking among Japan's import sources.

Among the major items in Japan's import basket, India has achieved a relatively healthy share (of more than 3%) in Japan's global imports of only three products:

- Organic chemicals (HS-29)
- Natural or cultured pearls, precious or semi-precious stones (HS-71)
- Fish and other aquatic invertebrates (HS-3)

However, in the case of the leading items in Japan's import basket, India's share is still marginal, which would serve to highlight the potential to further enhance these exports to Japan, in line with the huge import demand in Japan. At the same time, some of these items are amongst India's leading export items in the global market, highlighting India's global export capability. These potential commodities would include, among others:

- Mineral fuels and oils (HS-27)
- Electrical machinery and equipment (HS-85)
- Machinery and mechanical appliances (HS-84)
- Optical, photographic equipment (HS-90)
- Pharmaceutical products (HS-30)
- Vehicles other than railway or tramway (HS-87)
- Plastics and its articles (HS-39)

- Articles of apparel and clothing accessories, knitted or crocheted (HS-61)
- Articles of apparel and clothing accessories, not knitted or crocheted (HS-62)
- Aluminium and its articles (HS-76)
- Articles of iron and steel (HS-73)
- Iron and steel (HS-72)

Reviewing the India - Japan CEPA

Indian exports to Japan are presently affected by a number of issues, which include both tariff, and Non-tariff Barriers like Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). India faces NTBs in sectors like pharmaceuticals, as there is a requirement to partner with Japanese enterprises/trading houses for local marketing. In Japan, the average tariff on products of export interest to India are 7%, which is higher than the simple average (4%) of tariff of the country as a whole. This is despite the fact that India has a CEPA with Japan. Tariffs on products of Indian interest for exports to Japan like dairy products, cereals and preparations, rice, leather and footwear are very high[7]. Thus, in the subsequent CEPA review negotiations, India could possibly seek for tariffs reduction in these product categories.

Beyond Bilateral Trade- Partnership for the AAGC

The potential for India and Japan's relation extends, however, beyond the sphere of bilateral trade and investments. India and Japan have aimed at coordinating India's "Act East" policy and Japan's vision of a free and open Indo-Pacific. Thus, post the 2016 India-Japan Summit, the leaders of the two countries had expressed their intention to "work jointly and cooperatively with the international community to promote the development of industrial corridors and industrial network in Asia and Africa". This had given birth to the idea of Asia-Africa Growth Corridor (AAGC), which is a megaregional program aimed at improving ties between Asia and Africa, bringing economic prosperity, and encouraging sustainable development by building institutional and industrial corridors and networks for capacity enhancement, encouraging free and seamless movement of people, trade & investment, energy and enhancing partnership for infrastructure.

As a common partner of Asian and African countries, India is positioned to play a crucial role in the AAGC. In doing this, India stands to improve its own integration into the global value chains of

[7] Study on Non-Tariff Measures- India Exim Bank

production. Thus, both India and Japan stand to benefit from this collaboration. India could enhance its exports of manufactured goods, while Japanese companies based in India could take advantage of Indian business networks in Africa to enter African markets. Japanese companies could then enjoy large economies of scale by expanding their business in the continent.

India and Japan have an important role to play, regionally and globally, in the coming decade. Stronger trade integration between the countries would serve to enhance this partnership further in the 'New Asian Era'.

1.

MACROECONOMIC OVERVIEW OF JAPAN

Japan is a highly developed free market economy. It is the third largest economy in the world by nominal GDP[8] and fourth largest economy when measured by GDP at purchasing power parity[9]. Japan's economy expanded at a rapid pace post the second world war. Overall economic growth averaged 10% during 1960s, 5% in the 1970s and 4% in the 1980s[10]. This period of exceptional economic performance is also termed as the 'Japanese Economic Miracle'. The notable features of the post war Japanese economy were the close interlocking structures of manufacturers, suppliers, and distributors, known as keiretsu, the powerful enterprise unions and shuntō[11]; good relations with government bureaucrats, and the guarantee of lifetime employment (shūshin koyō) in big corporations and highly unionized blue-collar factories.

Japan's industrial expansion post the second world-war made it a world leader in shipbuilding, electronics, precision optical equipment, steel, automobiles, and high technology goods. The growth of Japanese exports during the 1960s and 1970s was truly phenomenal. Merchandise exports grew at an average annual rate of 16.8% in the 1960s and at an average annual rate of 15.8% in the 1970s. From 1980 to 1989, however, export growth averaged 6% per year, less than half the level of growth experienced in the 1970s[12]. The economy experienced stagnation in the 1990s, which is also called as a lost decade. As the aftereffects of inefficient investments and the collapse of the asset price bubbles of the 1980s, the economy expanded at an average of 1.5% during the 1990s[13]. After the asset price bubble burst to disastrous effect, government's stimulus packages to pull the

[8] IMF WEO Database, October 2020

[9] World Bank Data

[10] CIA World Factbook

[11] Shunto is a united campaign by labor unions, led by industrial unions. It is launched every year between March and April, the main aim of negotiations being higher wages.

[12] Trade Statistics of Japan- Ministry of Finance, Government of Japan

[13] IMF WEO Database, October 2020

economy out of recessions lead to a problem of increasing public debt. Japan's public debt to GDP ratio breached 100% mark in 1996[14].

Japan was struck hard by the 2008 financial crisis mainly because of fall in its exports as trade was hit heavily by the financial crisis. The economy contracted by 5.4% in 2009 and the public debt to GDP ratio crossed the 200% benchmark, with public debt standing at 200.9% of GDP in 2009.

Japan is geographically located along the "Ring of Fire", which is a belt of active volcanoes and earthquake epicenters bordering the Pacific Ocean, accounting for around 90% of the world's earthquakes and around 75% of the world's volcanoes[15]. Japan is thus, prone to natural hazards and disaster like earthquakes and tsunamis, recording the most number of earthquakes in the word annually.

Post the financial crisis, just as the economic recovery in Japan had started gathering stream, Japan, in 2011, was struck by a massive earthquake of magnitude 9 on the Richter scale and a resultant tsunami, which caused substantial destruction and enormous damage to life and property. Consequently, Japan again slipped back into recession. Post 2013, however, the economy of Japan has enjoyed an uptick on the back of monetary easing, flexible fiscal policy and structural reforms. But an ageing population, with total dependency ratio of 68[16], and the median age as high as 48.6 years (second oldest in the world), have remained a major long-term challenges for the economy.

The government's efforts at rebuilding the damage caused due to the 2011 earthquake and tsunami, and the generous fiscal support to aid growth has consistently inflated the public debt. Gross and net public debt amounted to 238 and 154 percent of 2018 GDP, respectively.

Scarce in critical natural resources, Japan is dependent on imported energy, more so after the complete shutdown of nuclear energy plants post the 2011 tsunami. Reforms of the electricity and gas sectors, including full liberalization of Japan's energy market in April 2016 and gas market in April 2017, constitute an important part of the recent energy market reforms.

Inspite of the setbacks faced, because Japan is also the largest investor in the world, the market confidence in the country continues to remain high. As per UNCTAD's World Investment Report, Japan's FDI outflow in 2019 amounted to US$ 227 billion, which was the highest in the world. Total

[14] IMF WEO Database, October 2020
[15] CIA World Factbook
[16] World Bank Data

outward FDI at the end of 2019 amounted to US 1.8 trillion[17] (accounting for 35.3% of Japan's GDP in 2019). At the same time Japan is also the world's biggest creditor nation.

Present Scenario and the Impact of COVID-19

Japan reported its first COVID-19 case on January 16, 2020. As on March 31, 2021, Japan has reported 479,877 cases of COVID-19 infections with 9,182 deaths. The infection rate is relatively low in Japan compared to Western Europe and the US. As a result of the pandemic the economy has contracted by 5.3% in 2020 (**Table 1**). With a decimation of global trade and tourism, Japan's automotive, machinery, retail and tourism industries have witnessed pronounced contraction. The Olympic and Paralympic Games that were scheduled to take place in capital city of Tokyo during July-August 2020 were cancelled and are now tentatively scheduled to take place during July-August 2021.

In order to mitigate the impact of the COVID-19 pandemic, the Government of Japan, in April 2020, adopted the Emergency Economic Package of ¥117.1 trillion (which accounted for 20.9% of Japan's GDP in 2019). The five broad objectives of the package included: (i) developing preventive measures against the spread of infection and strengthening treatment capacity (expenditure of 0.4% of Japan's GDP in 2019), (ii) protecting employment and businesses (15.8% of GDP in 2019), (iii) regaining economic activities after containment (1.5% of GDP in 2019), (iv) rebuilding a resilient economic structure (2.8% of GDP in 2019), and (v) enhancing readiness for the future (0.3 percent of GDP in 2019). On the monetary policy front the Bank of Japan announced measures for smooth functioning of financial markets and support credit provisions[18].

As a result of the stimulus package provided, the GDP is expected to grow by 2.3% in 2021 as the COVID-19 pandemic recedes and a pickup in private consumption and external sector leads to economic recovery. However, the consumption levels are expected to not return to the pre pandemic levels until 2025, as subdued inflation implies a low wage growth.

Japan has established itself as a leader in high-technology driven industries such as machinery, robotics, semi-conductors, automotive and auto parts. As global trade recovers in 2021, external demand for Japan's goods and services is expected to rebound sharply. The Japanese yen is expected to appreciate against US$ in 2021-22, on the back of its position as a top creditor country and persistent surplus in its current account. The country is expected to continue posting current

[17] JETRO – FDI Stock Data

[18] IMF Policy Tracker- Response to Covid-19

account surplus during the period 2021-25, equivalent to 3.3% of GDP, on average[19].

However, in the long-term, Japan could face structural problems of an ageing population and shrinking workforce; with certain sectors possibly facing labor problems, which would be exacerbated by low immigration into the country.

Table 1: Macroeconomic Snapshot of Japan- Select Indicators

Economic Indicators	2016	2017	2018	2019	2020[e]	2021[f]	2022[f]
GDP (US$ trn)	4.9	4.9	5.0	5.1	4.9	5.1	5.3
Real GDP growth (%)	0.5	2.2	0.3	0.7	-5.3	2.3	1.7
GDP per capita, constant prices (PPP, 2017 US$)	39,936.9	40,871.7	41,065.8	41,441.3	39,391.1	40,458.2	41,298.9
Consumer price inflation (avg, %)	-0.1	0.5	1.0	0.5	-0.1	0.3	0.7
Population (mn)	127.0	126.7	126.5	126.2	125.8	125.3	124.8
Merchandise Exports fob (US$ bn)	635.9	688.6	735.5	697.4	641.0	703.7	748.8
Merchandise Imports fob (US$ bn)	584.7	644.8	725.1	694.0	626.8	701.1	747.4
Current-account balance (US$ bn)	197.9	203.5	176.6	184.3	143.5	165.6	160.5
Current-account balance (% of GDP)	4.0	4.2	3.6	3.6	2.9	3.2	3.0
Total international reserves (US$ bn)	1,217	1,264	1,270	1,322	-	-	-
Exchange rate (avg; ¥: US$)	108.8	112.2	110.4	109.0	106.7	104.1	103.3

Note: - Not available; [e-] Estimates; f- Projections

Source: IMF WEO October 2020 Database, EIU, WDI

[19] Economist Intelligence Unit- Japan Country Report

2.

INTERNATIONAL TRADE SCENARIO OF JAPAN

The core pillar of Japan's economic development has been rapid industrialization of the country, post the second world-war. Lack of critical natural resources like fossil fuels did not hamper the process of development of the country, as Japan's strategy of importing raw material and exporting finished products paid off well. In the pre-second world war period from 1874 to 1939, Japan's exports grew at an annual average rate of 6.8 percent compared to growth rate of 5.8 percent for imports[20]. Post the second world war, the growth of Japanese exports during the 1960s and 1970s was truly phenomenal. Beginning in 1960 at US$ 4.1 billion, merchandise exports grew at an average annual rate of 16.9% in the 1960s and at an average annual rate of 21% in the 1970s. From 1981 to 1988, however, export growth averaged 11.3% per year, about one-half the level of the 1970s. By 1990 merchandise exports reached US$ 286.9 billion.

Japan's administration understands the importance of international trade in promoting economic growth, therefore, in "The Japan Revitalization Strategy of 2013", the administration had set a target of achieving 70 percent trade through Free Trade Agreements, which stood at 19 percent in 2013[21]. Japan has Regional Trade Agreements (RTA) in force with the following countries: Brunei, Chile, European Union, India, Australia, Indonesia, Malaysia, Mexico, Mongolia, Peru, Philippines, Singapore, Switzerland, Thailand, Vietnam, UK and the US. Apart from these Japan has RTA with ASEAN and it has also signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and Regional Comprehensive Economic Partnership (RCEP). Japan is also currently negotiating trade agreements with Turkey, Colombia, and a trade agreement between Japan, China and South Korea[22].

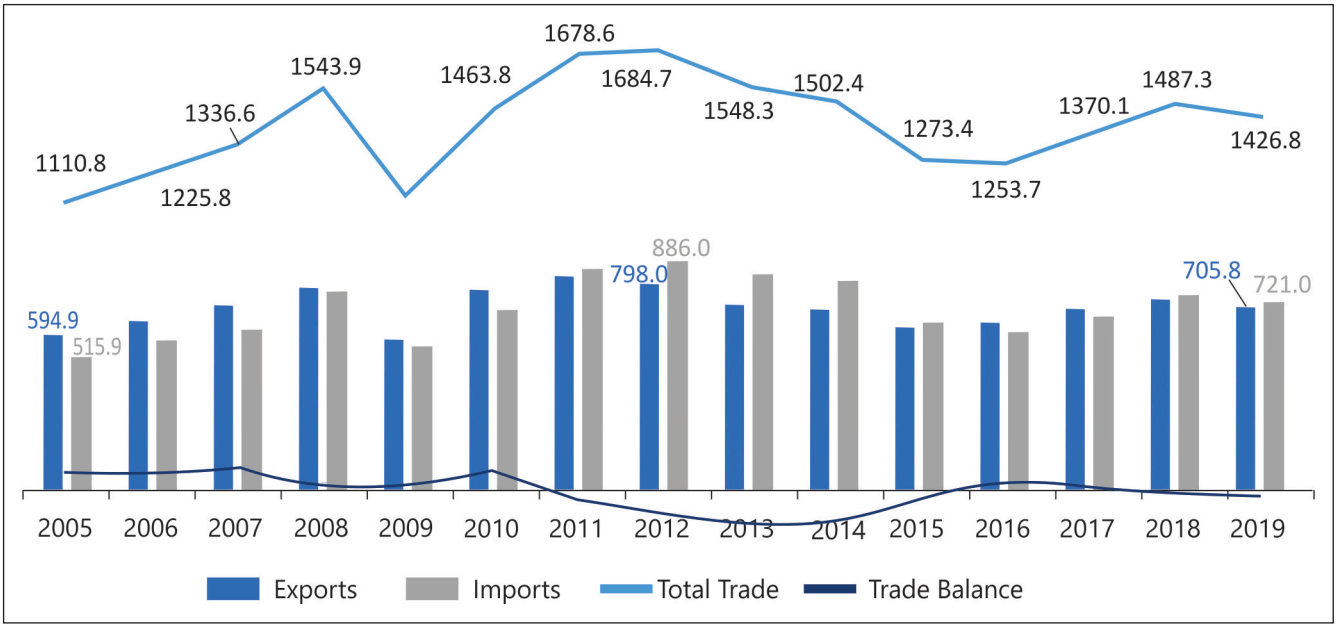
[20] Economic Development and International Trade- The Japanese Model by Ippei Yamazawa

[21] Japan Revitalization Strategy, 2013

[22] Ministry of Foreign Affairs of Japan

In the recent years, Japan's total merchandise trade has increased from US$ 1.1 trillion in 2005 to US$ 1.4 trillion in 2019 **(Figure 1)**. Merchandise exports increased from US$ 594.9 billion in 2005 to US$ 705.8 billion in 2019, on the other hand merchandise imports increased from US$ 515.9 to US$ 721 billion during the same period. Traditionally, Japan has enjoyed a trade surplus. However, post the Fukushima Nuclear Disaster of 2011, the country had to increase imports of fossil fuels and gas. The magnitude of such imports increased because of a weaker Yen and higher global oil and gas prices. Japan recorded trade surplus again in 2016 and 2017, however, the trade balance shifted back to deficit in 2018 and 2019 on the back of global trade wars, and the sluggish growth of the world economy.

Figure 1: Evolution of Japan's Trade in Merchandise Goods (US$ bn, 2005-2019)



Source: ITC Trademap and India Exim Bank Analysis

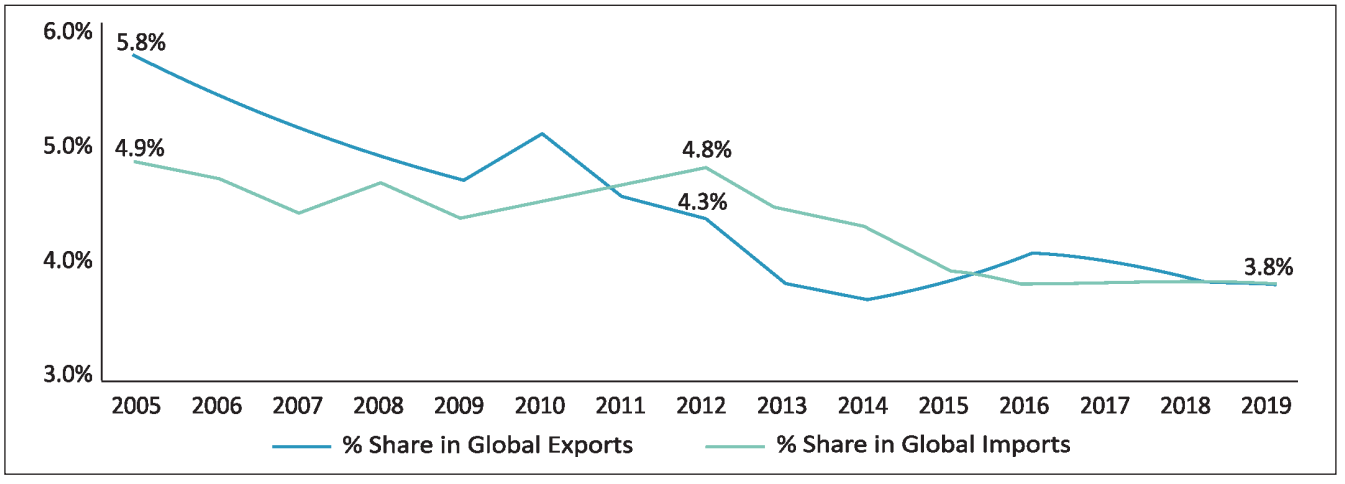
Japan's Share in International Trade

In 2019, Japan was the fourth largest exporter and fourth largest importer of merchandise goods[23]. Merchandise trade accounted for 28.1% of GDP in 2019[24]. Over the years Japan's share in international merchandise trade has declined from 5.3% in 2005 to 3.8% in 2019 with share in exports coming down from 5.8% in 2005 to 3.8% in 2019, and share in imports declining from 4.9% in 2005 to 3.8% in 2019 **(Figure 2).**

[23] ITC Trademap

[24] World Bank Data

Figure 2: Share of Japan's Trade in Global Merchandise Trade (%, 2005-2019)



Source: ITC Trademap and India Exim Bank Analysis

Japan's Top Traded Items

Japan's exports were dominated by textiles in the 1950s, followed by steel and ships in the 1960s, and cars and consumer electronics in the 1980s. In recent years, the composition of exports and imports has continued to change as new players enter the global marketplace and technology evolves. However, transport vehicles, machinery and electrical equipment remain the top exporting item of the country **(Table 2)**.

Table 2: Japan's Major Export Items (US$ bn)

HS Code	Product label	2017	2018	2019	Share in Exports (%, 2019)
	All products	**698.0**	**738.2**	**705.8**	**100%**
87	Vehicles other than railway or tramway	146.2	154.1	148.9	21.1%
84	Machinery, mechanical appliances	138.4	147.9	137.1	19.4%
85	Electrical machinery and equipment	105.5	109.4	103.0	14.6%
90	Optical, photographic, cinematographic, medical or surgical equipment	39.8	41.3	39.1	5.5%
72	Iron and steel	28.0	29.9	26.1	3.7%
39	Plastics and articles thereof	25.1	26.1	25.2	3.6%
29	Organic chemicals	17.9	18.9	17.9	2.5%

HS Code	Product label	2017	2018	2019	Share in Exports (%, 2019)
27	Mineral fuels, mineral oils and products of their distillation	11.4	13.4	14.0	2.0%
89	Ships, boats and floating structures	12.3	12.6	13.8	2.0%
38	Miscellaneous chemical products	10.3	11.9	11.9	1.7%
71	Natural or cultured pearls, precious or semi-precious stones,	15.2	12.0	11.5	1.6%
40	Rubber and articles thereof	10.3	10.6	10.3	1.5%
73	Articles of iron or steel	9.8	10.3	10.3	1.5%
74	Copper and articles thereof	7.4	8.5	7.6	1.1%

Source: ITC Trademap and India Exim Bank Analysis

On the other hand, because of unavailability of fossil fuels, Japan relies heavily on import of mineral fuels, oils and products of their distillation (accounting for one-fifth of total imports in 2019), followed by electronics, machinery, optical equipment and pharmaceutical products **(Table 3)**.

Table 3: Japan's Major Import Items (US$ bn)

HS Code	Product label	2017	2018	2019	Share in Imports (2019, %)
	All products	**672.1**	**749.1**	**721.0**	**100%**
27	Mineral fuels, mineral oils and products of their distillation	141.3	174.8	155.7	21.6%
85	Electrical machinery and equipment	97.7	101.2	98.8	13.7%
84	Machinery, mechanical appliances	65.3	72.9	70.5	9.8%
90	Optical, photographic, cinematographic medical or surgical equipment	25.5	27.6	28.2	3.9%
30	Pharmaceutical products	22.5	25.5	27.2	3.8%
87	Transport Vehicles other than railway or tramway	22.4	24.6	23.8	3.3%
26	Ores, slag and ash	20.8	22.4	22.2	3.1%
39	Plastics and articles thereof	15.1	16.9	16.2	2.2%
29	Organic chemicals	15.9	18.2	16.1	2.2%

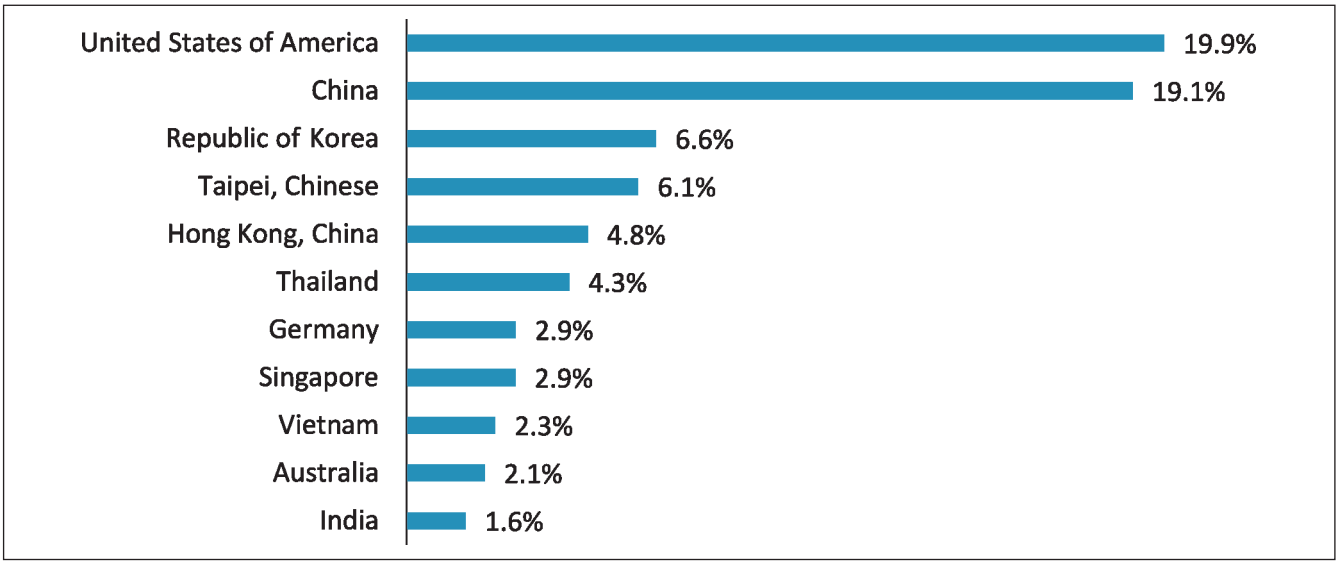
HS Code	Product label	2017	2018	2019	Share in Imports (2019, %)
62	Articles of apparel and clothing accessories, not knitted or crocheted	13.6	14.7	14.3	2.0%
61	Articles of apparel and clothing accessories, knitted or crocheted	12.8	13.8	13.7	1.9%
71	Natural or cultured pearls, precious or semi-precious stones, precious metals	11.1	12.5	12.8	1.8%
3	Fish and crustaceans, molluscs and other aquatic invertebrates	11.7	11.9	11.5	1.6%
2	Meat and edible meat offal	10.1	10.4	10.8	1.5%

Source: ITC Trademap and India Exim Bank Analysis

Japan's Top Trade Partners

In 2019, 19.9% of Japan's exports headed to the United States which amounted to US$ 140.5 billion. China was the second largest destination for Japanese exports in 2019, with exports worth US 134.7 billion (19.1% of total exports). In 2019, Japan's exports to India amounted to US$ 11 billion, which was 1.6% of Japan's overall exports in the same year. India was Japan's 15th most important export destination in 2019 **(Figure 3).**

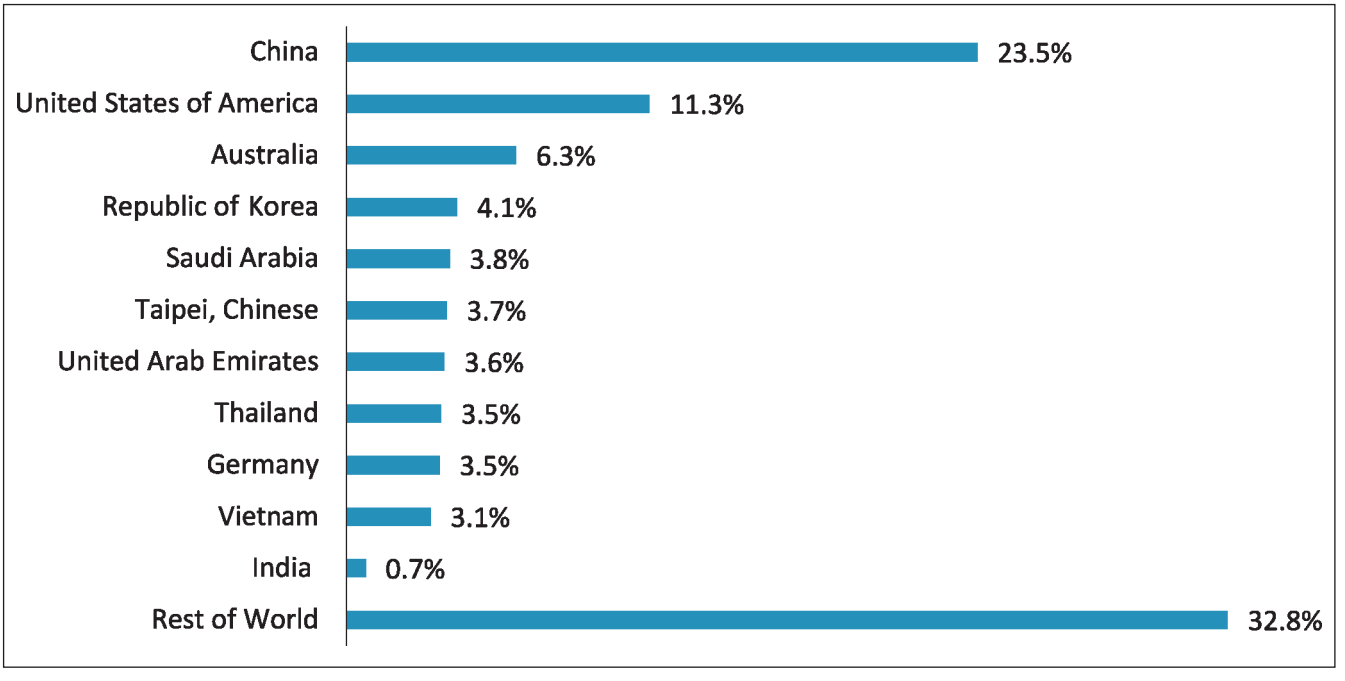
Figure 3: Japan's Top Export Destinations in 2019 (US$ billion)



Source: ITC Trademap and India Exim Bank Analysis

In 2019, China was the most important source for imports for Japan. Japan's merchandise imports from China amounted to US$ 169.2 billion (23.5% of Japan's total imports in 2019). The US followed China as the second largest source of imports for Japan in 2019, with imports amounting to US$ 81.3 billion and a share of 11.3% in total imports on 2019. Japan imported goods worth US$ 5.4 billion from India in 2019. India's share in Japan's global imports accounted for only 0.7% in the same year. Concomitantly, India was 27th most important source for Japanese imports in 2019 **(Figure 4).**

Figure 4: Japan's Top Import Sources in 2019 (US$ billion)



Source: ITC Trademap and India Exim Bank Analysis

3.

EVOLUTION OF INDIA – JAPAN TRADE RELATIONS

Japan and India are the second and third largest economies of Asia, respectively, when measured in GDP at current prices[25]. Exchanges between the two countries are recorded from 6th century onwards, with the introduction of Buddhism in Japan. In modern times, India and Japan signed a peace treaty and established diplomatic relations on April 28th, 1952. This was one of the first peace treaties Japan signed after the second world war[26]. The two countries have enjoyed cordial relations since then. Japan has been one of the most important economic partners for India's development. Japan has been extending bilateral loans and grant assistance to India since 1958 and is the largest bilateral donor for India[27]. Japanese Official Development Assistance (ODA) supports India's efforts for accelerated economic development particularly in priority areas like power, transportation, environmental projects and projects related to basic human needs. The Delhi Metro is one of the most successful examples of successful Japanese cooperation through the utilization of ODA. The Mumbai-Ahmedabad High Speed Rail, the Western Dedicated Freight Corridor (DFC), the Delhi-Mumbai Industrial Corridor with twelve industrial townships, the Chennai-Bengaluru Industrial Corridor (CBIC) are all mega projects on the anvil which will transform India in the next decade. Japan's ODA Commitment in FY 2018-19 was at historic highest amount of JPY 522.405 billion[28].

[25] IMF WEO October 2020
[26] Japan- India Relations, Ministry of Foreign Affairs of Japan
[27] Japan- India Relations, Ministry of External Affairs of India
[28] Japan- India Relations, Ministry of External Affairs of India

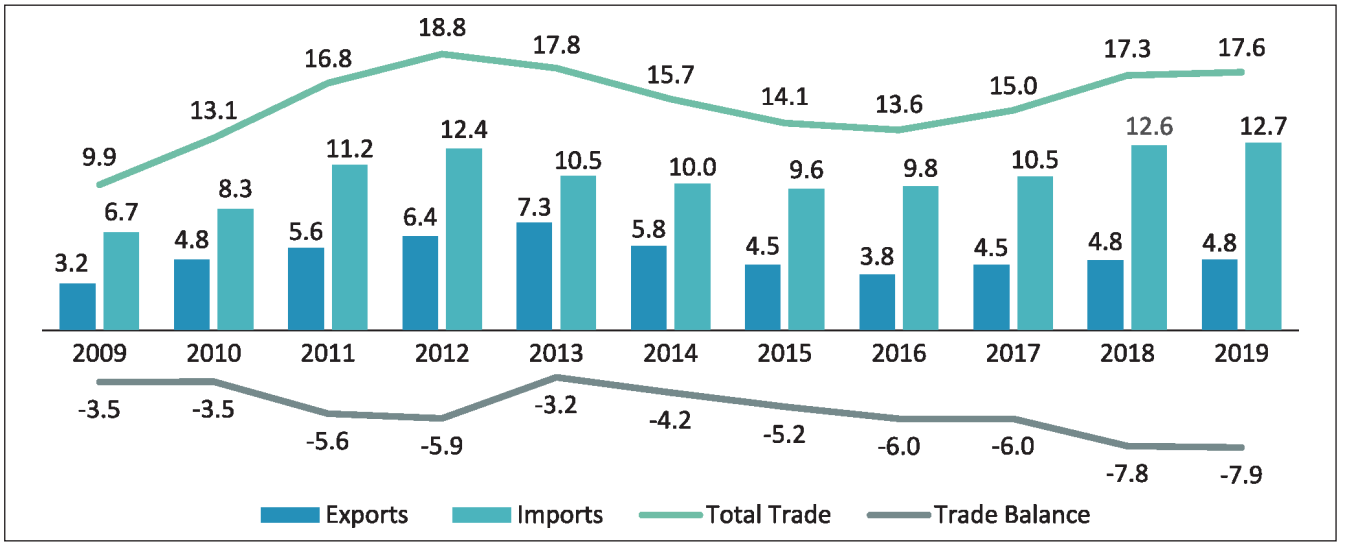
India- Japan Trade

Comprehensive Economic Partnership Agreement Between India and Japan

India and Japan signed the Comprehensive Economic Partnership Agreement (CEPA) on February 16th 2011, the CEPA came into force from August of the same year. The agreement aimed at eliminating tariffs on 90 percent of Japanese exports to India, such as auto parts and electric appliances, and 97 percent of imports from India, including agricultural and fisheries products, until 2021. The CEPA with Japan is one of the most comprehensive trade agreements that India has entered with any country. The agreement rests on various complementarities between the two economies in areas such as factor endowments, capabilities, demographic profiles, convergences and specializations.

In the recent times, India's total trade with Japan has increased from US$ 9.9 billion in 2009 to US$ 17.6 billion in 2019 **(Figure 5)**. While exports have increased by 49.8% from US$ 3.2 billion in 2009 to US$ 4.8 billion in 2019, imports have increased by around two-fold from US$ 6.7 billion in 2009 to US$ 12.7 billion in 2019. The total trade between the two countries peaked at US$ 18.8 billion in 2012. India's exports to Japan peaked in 2013 at US$ 7.3 billion and India's imports from Japan were maximum in 2019 at US$ 12.7 billion. India has been persistently running trade deficit with Japan, which has worsened over the years. India's trade deficit with Japan which stood at US$ 3.5 billion in 2009 has ballooned to US$ 7.9 billion in 2019.

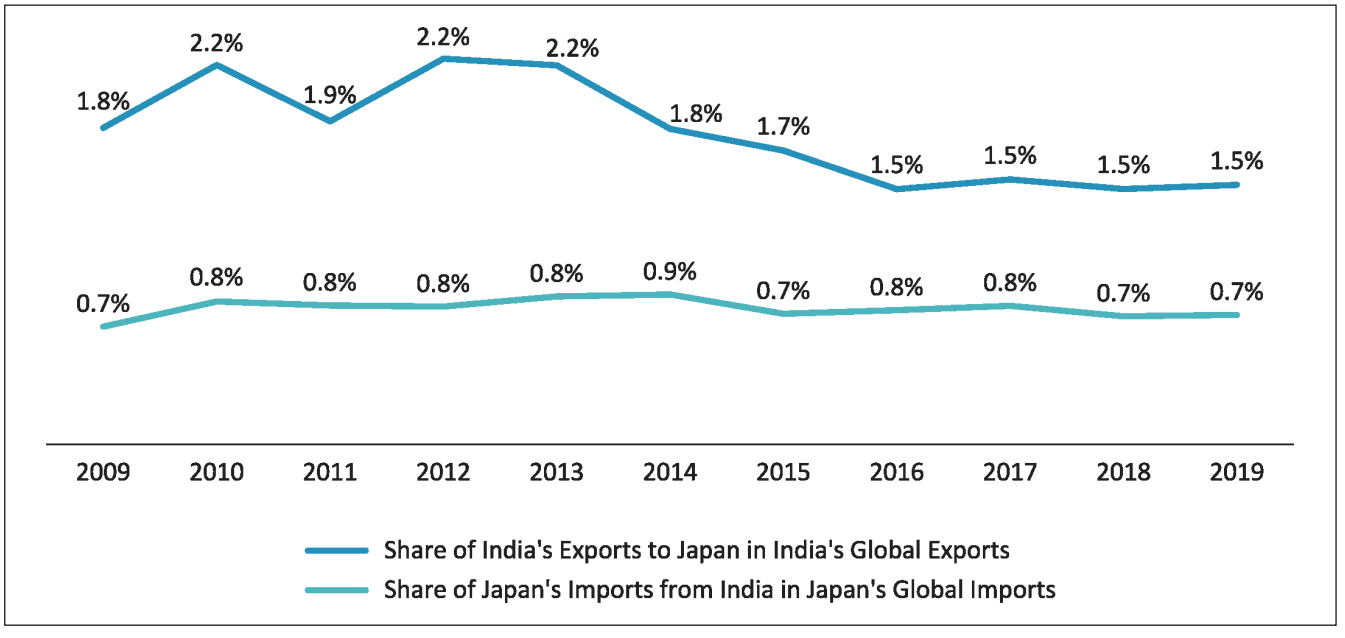
Figure 5: India's Bilateral Trade with Japan (US$ billion)



Source: ITC Trademap and India Exim Bank Analysis

Moreover, it is important to note, that the share of India's exports to Japan in India's overall exports has moderated from 1.8% in 2009 to 1.5% in 2019. On the other hand, share of Indian imports in Japan's overall imports has remained stable at around 0.7% during the same time period **(Figure 6)**. As pointed out earlier, India was the 27th largest source for Japan's imports in 2019. With respect to the CEPA, India's foreign policy statement points out that, *"While on the one hand, 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".*

Figure 6: Trade with Japan vis-à-vis Global Trade



Source: ITC Trademap and India Exim Bank Analysis

India's Exports to Japan: Product Wise

India's major exports to Japan in 2019 were petroleum products (12% of total exports in 2019), followed by organic chemicals (11.9%), fish and aquatic invertebrates (8.7%) and so on **(Table 4).**

Table 4: India's Major Export Items to Japan (US$ mn)

HS Code	Product label	2017	2018	2019	Share in Exports (%, 2019)
	All products	**4499.2**	**4751.0**	**4815.6**	**100%**
27	Mineral fuels, mineral oils and products of their distillation	799.4	507.9	579.1	12.0%
29	Organic chemicals	411.0	481.1	572.0	11.9%
3	Fish and crustaceans, molluscs and other aquatic invertebrates	434.1	413.9	419.0	8.7%
71	Natural or cultured pearls, precious or semi-precious stones	279.5	394.4	415.6	8.6%
84	Machinery, mechanical appliances	265.5	425.1	303.0	6.3%
87	Vehicles other than railway or tramway	184.0	234.5	235.6	4.9%
26	Ores, slag and ash	188.5	150.6	209.5	4.3%
72	Iron and steel	235.9	241.4	208.0	4.3%
62	Articles of apparel and clothing accessories, not knitted or crocheted	147.6	173.2	190.9	4.0%
76	Aluminium and articles thereof	117.1	171.1	150.7	3.1%
38	Miscellaneous chemical products	164.0	129.0	141.8	2.9%
39	Plastics and articles thereof	52.0	133.2	113.0	2.3%
85	Electrical machinery and equipment	99.5	120.3	112.8	2.3%
32	Tanning or dyeing extracts	62.2	79.3	87.9	1.8%
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals	38.8	53.2	76.8	1.6%
8	Edible fruit and nuts; peel of citrus fruit or melons	89.1	85.4	69.0	1.4%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipment	48.6	72.2	68.0	1.4%
30	Pharmaceutical products	49.6	50.0	64.2	1.3%
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	44.9	47.8	60.3	1.3%
52	Cotton	54.5	64.8	56.0	1.2%

Source: ITC Trademap and India Exim Bank Analysis

India's Imports from Japan- Product Wise

As regards imports, India's top import items from Japan in 2019 were machinery and mechanical appliances (25.9% of total imports), followed by electronics, iron and steel, plastics, and copper and its articles **(Table 5).**

Table 5: India's Major Import Items from Japan (US$ mn)

HS Code	Product label	2017	2018	2019	Share in Imports (%, 2019)
	All products	**10464.5**	**12577.6**	**12744.5**	**100%**
84	Machinery, mechanical appliances	2574.2	3316.4	3306.8	25.9%
85	Electrical machinery and equipment	1266.1	1406.2	1408.5	11.1%
72	Iron and steel	1167.3	1259.1	1154.7	9.1%
39	Plastics and articles thereof	788.7	876.3	947.1	7.4%
74	Copper and articles thereof	184.1	467.7	778.6	6.1%
29	Organic chemicals	486.5	850.3	746.5	5.9%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipment	662.2	758.7	717.8	5.6%
87	Vehicles other than railway or tramway	625.9	540.3	454.0	3.6%
73	Articles of iron or steel	315.9	396.2	373.9	2.9%
27	Mineral fuels, mineral oils and products of their distillation	198.6	267.3	285.8	2.2%
89	Ships, boats and floating structures	350.1	247.0	274.9	2.2%
40	Rubber and articles thereof	268.1	292.0	269.1	2.1%
28	Inorganic chemicals; organic or inorganic compounds of precious metals	222.4	235.2	252.4	2.0%
38	Miscellaneous chemical products	191.6	207.5	203.5	1.6%
71	Natural or cultured pearls, precious or semi-precious stones, precious metals	29.3	184.5	185.3	1.5%
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	140.3	151.6	154.6	1.2%

HS Code	Product label	2017	2018	2019	Share in Imports (%, 2019)
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	57.3	121.1	119.4	0.9%
34	Soap, organic surface-active agents, washing preparations	85.3	98.7	95.7	0.8%
75	Nickel and articles thereof	38.5	42.8	88.7	0.7%
54	Man-made filaments; strip and the like of man-made textile materials	67.5	72.1	85.7	0.7%

Source: ITC Trademap and India Exim Bank Analysis

India's Trade Balance with Japan

As highlighted in the previous sections, India runs a trade deficit with Japan, which has worsened in recent years. Trade deficit, which stood at US$ 3.5 billion in 2009, has deteriorated to reach US$ 7.9 billion in 2019. Reflecting sharp rise in imports from Japan, sectors which present the largest trade deficit for India in 2019 are machinery (deficit of over US$ 3 billion), electrical and electronic equipment (deficit of around US$ 1.2 billion), iron and steel, plastics, copper and its products and so on **(Table 6)**. In case of aluminum and its articles, India's trade balance with Japan, which was in deficit in 2009, has turned into surplus since 2015.

Table 6: India's Trade Balance with Japan, 2009-19 (US$ mn)

HS Code	Product Label	2009	2019
TOTAL	All products	-3473.1	-7928.9
84	Machinery, mechanical appliances	-1631.6	-3003.8
85	Electrical machinery and equipment and parts thereof	-1087.8	-1295.7
72	Iron and steel	-573.9	-946.7
39	Plastics and articles thereof	-203.0	-834.1
74	Copper and articles thereof	-11.0	-773.1
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipment	-287.3	-649.8
73	Articles of iron or steel	-187.6	-328.2
89	Ships, boats and floating structures	-202.7	-274.9

HS Code	Product Label	2009	2019
40	Rubber and articles thereof	-134.1	-242.6
87	Vehicles other than railway or tramway	-576.0	-218.3
15	Animal or vegetable fats and oils and their cleavage products	37.7	43.8
52	Cotton	34.1	54.1
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	30.0	56.5
8	Edible fruit and nuts; peel of citrus fruit or melons	36.8	68.8
76	Aluminium and articles thereof	-11.2	110.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	125.7	190.6
26	Ores, slag and ash	372.5	203.4
71	Natural or cultured pearls, precious or semi-precious stones, precious metals	240.0	230.3
27	Mineral fuels, mineral oils and products of their distillation	700.1	293.3
3	Fish and crustaceans, molluscs and other aquatic invertebrates	187.3	417.8

Source: ITC Trademap and India Exim Bank Analysis

Thus, though, it is noteworthy that the total trade between both countries has almost doubled in last 12 years, the widening trade deficit is a matter of concern for long term sustainability of bilateral trade relations. It is necessary that both countries work together towards a mutually beneficial and a more balanced trade.

4.

OPPORTUNITIES FOR ENHANCING BILATERAL TRADE BETWEEN INDIA AND JAPAN

India's trade with Japan has witnessed a steady increase in the last two decades. The total trade between the two Asian giants which stood at US$ 3.3 billion in 2001, increased nearly threefold to reach US$ 9.1 billion in 2007, thereafter the trade again almost doubled to reach a figure of US$ 17.6 billion in 2019. However, trade has been tilted in favor of Japan. It is important to note that India's trade deficit with Japan, which stood at US$ 236.9 million in 2001, ballooned to US$ 2.6 billion in 2007 and reached US$ 7.9 billion in 2019. Growth in India's imports from Japan has outpaced growth in India's exports to Japan during this time.

India as a Trading Partner for Japan

In 2001 India was 26th most important market for Japan's exports. The importance of Indian market for Japan's exports has risen steadily and it is reflected in the increased ranking of India in Japan's export markets. While in 2007 India was 24th largest destination for Japan's exports, in 2019 India's position improved and India is now the 15th most important market for Japanese exports. As regards imports, India was ranked 29th among Japan's import sources in 2001, improving to the 27th position in 2007. However, there has been no improvement in this rank after 2007. India still ranks 27th among Japan's import sources globally.

Enhancing Bilateral Trade Relations

To enhance bilateral trade relations, and in particular to address India's rising trade deficit with Japan, it would be pertinent to identify and focus on potential items of exports from India to Japan. This, in turn, could be in line with India's global export capability as also demand existing in Japan as exhibited by the rising trend in major import items of Japan. Concomitantly, such a strategy would also serve to enhance India's ranking among Japan's import sources. Such a strategy would entail:

- Identification of major items in Japan's import basket, and share of India in each product line (based on 2-digit HS Commodity code); and
- Selection of potential export items, based on low share of India in Japan's import basket of major commodities, keeping in view India's global export capabilities.

This would involve identification of potential export items under each product category, up to the 6-digit HS code. The following table **(Table 7)** presents Japan's major import items, in terms of 2-digit HS code, and India's share in Japan's global imports of these items in 2019.

Table 7: Japan's Major Import Items and India's Share in Japan's Imports, 2019

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
	All products	**720964.4**	**4815.6**	**0.7%**	**323250.7**
27	Mineral fuels, mineral oils	155708.8	579.1	0.4%	44532.7
85	Electrical machinery and equipment	98779.2	112.8	0.1%	14940.7
84	Machinery, mechanical appliances	70541.4	303.0	0.4%	21263.7
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipment	28231.4	68.0	0.2%	3391.2
30	Pharmaceutical products	27227.6	64.2	0.2%	16264.0
87	**Vehicles other than railway or tramway**	**23761.6**	**235.6**	**1.0%**	**17412.6**

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
26	**Ores, slag and ash**	**22215.9**	**209.5**	**0.9%**	**3029.3**
39	**Plastics and articles thereof**	**16175.0**	**113.0**	**0.7%**	**7351.3**
29	**Organic chemicals**	**16107.3**	**572.0**	**3.6%**	**18247.4**
62	**Articles of apparel and clothing accessories, not knitted or crocheted**	**14301.9**	**190.9**	**1.3%**	**8362.2**
61	Articles of apparel and clothing accessories, knitted or crocheted	13663.5	33.1	0.2%	7879.6
71	**Natural or cultured pearls, precious or semi-precious stones**	**12772.7**	**415.6**	**3.3%**	**36734.4**
3	**Fish and crustaceans, molluscs and other aquatic invertebrates**	**11540.9**	**419.0**	**3.6%**	**6300.4**
2	Meat and edible meat offal	10843.1	0.0	0.0%	3450.6
44	Wood and articles of wood; wood charcoal	10682.2	1.6	0.0%	477.6
88	Aircraft, spacecraft, and parts thereof	8382.6	13.2	0.2%	1493.1
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishing	8354.6	10.7	0.1%	1841.8
76	**Aluminium and articles thereof**	**8015.5**	**150.7**	**1.9%**	**5244.3**
72	**Iron and steel**	**7725.6**	**208.0**	**2.7%**	**9773.8**
73	Articles of iron or steel	7662.6	45.8	0.6%	7250.9

Source: ITC Trademap and India Exim Bank Analysis

As can be seen from the table above, India's share in Japan's overall global imports is just 0.7%. For most of Japan's import items, India's share is marginal. For the following product categories India's share in Japan's imports is over a marginal 0.7%:

- Vehicles other than railway or tramway (HS-87)
- Ores, slag and ash (HS-26)
- Plastics and its articles (HS-39)
- Organic chemicals (HS-29)
- Articles of apparel and clothing accessories, not knitted or crocheted (HS-62)
- Natural or cultured pearls, precious or semi-precious stones (HS-71)
- Fish and other aquatic invertebrates (HS-3)
- Aluminium and its articles (HS 76)
- Iron and steel (HS-72)

Among the above listed product categories only organic chemicals, natural or cultured pearls, and fish and other aquatic invertebrates have achieved a share of more than 3%. However, in the leading import product categories of Japan, India has achieved only a marginal share (even less than overall average of 0.7% in most categories). These product categories highlight potential that exists for India to increase its exports to Japan, in line with the huge import demand in Japan. At the same time, some of these items are amongst India's leading export items in the global market, highlighting India's global export capability.

Potential Items of India's Exports to Japan

Based on the above criteria and analysis of the above table, as also on India's global export capability and Japan's import demand, potential items of export to Japan, as per 2-digit HS commodity classification, would include, among others, the following categories:

Mineral fuels and oils (HS-27)

Electrical machinery and equipment (HS-85)

Machinery and mechanical appliances (HS-84)

Optical, photographic equipment (HS-90)

Pharmaceutical products (HS-30)

Vehicles other than railway or tramway (HS-87)

Plastics and its articles (HS-39)

Articles of apparel and clothing accessories, knitted or crocheted (HS-61)

Articles of apparel and clothing accessories, not knitted or crocheted (HS-62)

Aluminium and its articles (HS-76)

Articles of iron and steel (HS-73)

Iron and steel (HS-72)

Brief Analysis of Japan's Major Import Items and India's Potential Export Items

Potential items of exports to Japan under each category have been identified, up to the 6-digit HS commodity classification, and have been presented below.

Mineral Fuels, Oils, Distillation Products (HS-27)

As highlighted earlier mineral fuels, oils and products is a major import item in Japan's import basket, accounting for 21.6% of Japan's total imports in 2019. Petroleum crude (HS-2709), petroleum gas and other gaseous hydrocarbons (HS- 2711), coal and briquettes (HS-2701), petroleum oils excluding crude (HS- 2710) are major items of Japan's import under this product category. India is a major supplier of petroleum oils excluding crude (HS- 2710) to Japan. However, India's exports in this product category have witnessed decline in recent years. India was the second largest supplier of petroleum oils excluding crude in 2014, however, in 2019 India has slipped to 8th position. **Table 8** presents select potential export items in the mineral fuel and products category.

Table 8: Mineral Fuels, Oils and Distillation Products (HS-27) – Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	2518.8	326.6	12.97%	29790.4
271012	Light oils and preparations, of petroleum or bituminous minerals which >= 90% by volume	10635.3	251.5	2.37%	12646.4
270799	Oils and other products of the distillation of high temperature coal tars	73.1	–	–	578.0

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

Electrical Machinery and Equipment (HS-85)

China was the largest supplier of electrical machinery and equipment with a share of 46.8% in Japan's imports in 2019. China was followed by Taiwan (12.7%), USA (6.5%), and Thailand (5.9%). India's exports to Japan in this category are underwhelming and have stagnated at 0.1% over the last decade. On the other hand, Vietnam has been able to increase its share in Japan's imports from 2.1% in 2010 to 5.3% in 2019. **Table 9** presents select potential export items in the electrical machinery and equipment product category.

Table 9: Electrical Machinery and Equipment (HS-85) –
Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	15441.7	–	–	3406.0
851762	Machines for the reception, conversion and transmission or regeneration of voice, images	6274.3	0.9	–	515.7
854430	Ignition wiring sets and other wiring sets for vehicles, aircraft or ships	4988.9	13.0	0.3%	244.2
854140	Photosensitive semiconductor devices, incl. photovoltaic cells	3576.3	–	–	277.2
850440	Static converters	2100.2	15.6	0.7%	1186.0
851770	Parts of telephone sets, telephones for cellular networks or for other wireless networks	1841.8	0.4	–	293.6
853690	Electrical apparatus for switching electrical circuits	1221.4	4.0	0.3%	296.0
853710	Boards, cabinets and similar combinations of apparatus for electric control	1179.0	28.4	2.4%	431.2
853890	Parts suitable for use solely or principally with the apparatus of heading 8535, 8536 or 8537	940.8	1.9	0.2%	456.4
850300	Parts suitable for use solely or principally with electric motors and generators, electric	667.0	2.9	0.4%	692.3
850110	Motors of an output <= 37,5 W	636.3	0.5	0.1%	157.0
854449	Electric conductors, for a voltage <= 1.000 V, insulated, not fitted with connectors	400.0	0.2	–	297.7

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
850710	Lead-acid accumulators of a kind used for starting piston engine "starter batteries"	249.9	–	–	167.4
850490	Parts of electrical transformers and inductors	232.5	3.0	1.3%	281.9
853620	Automatic circuit breakers for a voltage <= 1.000 V	182.9	0.1	0.1%	155.2

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

Machinery and Mechanical Appliances (HS-84)

China is the largest supplier of machinery and mechanical appliances to Japan, with a share of 45.2% in 2019. Other major suppliers are USA (15.5%), Thailand (5.3%), and South Korea (5.1%). Whereas China's share in Japan's imports has moderated slightly in the last decade, share of USA, Germany and UK has increased. India's share in Japan's imports of machinery and mechanical appliances has increased in last ten years from 0.2% to 0.5%, however it remains marginal, thus reflecting potential to increase exports. **(Table 10)**

Table 10: Machinery and Mechanical Appliances (HS-84) – Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
840999	Turbojets of a thrust > 25 kN	2236.3	44.4	2.0%	3128.5
840890	Parts of machinery	1484.9	15.3	1.0%	379.7
840991	Appliances for pipes, boiler shells, tanks, vats or the like	1316.0	2.3	0.2%	880.1
841480	Parts suitable for use solely or principally with spark-ignition internal combustion piston	1061.6	6.0	0.6%	322.0
841490	Machines and mechanical appliances	950.2	3.7	0.4%	377.0
847790	Parts of machines and mechanical appliances	911.8	1.9	0.2%	214.3
847490	Parts suitable for use solely or principally with compression-ignition internal combustion	802.7	12.5	1.6%	738.4
841229	Parts of valves and similar articles for pipes, boiler shells, tanks, vats or the like, n.e.s.	690.4	9.4	1.4%	484.3
842839	Air pumps, air or other gas compressors and ventilating or recycling hoods incorporating	638.0	4.4	0.7%	262.0
844190	Gears and gearing for machinery (excluding toothed wheels, chain sprockets and other transmission	503.5	1.5	0.3%	512.9
848690	Compression-ignition internal combustion piston engine "diesel or semi-diesel engine"	472.9	9.1	1.9%	311.7
847990	Parts of : air or vacuum pumps, air or other gas compressors, fans and ventilating or recycling	470.7	4.3	0.9%	359.0

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
841231	Parts of pumps for liquids	464.2	2.8	0.6%	378.3
841440	Transmission shafts, incl. cam shafts and crank shafts, and cranks	368.3	2.3	0.6%	346.3
847410	Compression-ignition internal combustion piston engine "diesel or semi-diesel engine"	358.3	8.8	2.4%	616.4
842099	Centrifugal pumps, power-driven	206.6	1.5	0.7%	252.3

Source: ITC Trademap and India Exim Bank Analysis

Optical, Photographic Equipment (HS-90)

USA has been the largest source for imports of optical, photographic equipment for Japan, however, its share is declining. USA's share stood at 46.3% in 2001, and in 2019 its share reduced to 28.6%. China is the second largest source of imports for Japan in this product category. China's share stood at 11.6% in 2001, which increased to 17% in 2010 and further to 17.6% in 2019. India's exports to Japan in this product category have increased over the last two decades, however the share remains marginal (increased marginally from 0.3% in 2001 to 0.4% in 2019).

Table 11: Optical, Photographic Equipment (HS-90) - Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
901890	Instruments and appliances used in medical, surgical or veterinary sciences	2725.1	3.0	0.1%	292.4
901839	Needles, catheters, cannulae and the like, used in medical, surgical, dental procedures	2164.8	1.0	–	336.4
903289	Regulating or controlling instruments and apparatus (excluding hydraulic or pneumatic, manostats)	1399.8	8.9	0.6%	226.4
900110	Optical fibres, optical fibre bundles and cables (excluding made up of individually sheathed	63.3	–	–	239.7

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

Pharmaceutical Products (HS-30)

In 2019, Japan was the 7th largest importer of pharmaceutical products in the world and India was the 11th largest exporter of pharmaceutical products in the world. India, which is considered as the pharmacy of the world, has a marginal share in Japan's share of pharmaceutical imports, which amounted to only 0.2% in 2019. For Japan, USA, followed by Germany, Ireland, and Switzerland are the most important import sources. India can provide quality pharmaceutical products for Japan's ageing population in a cost-effective way. Pharmaceutical products, thus, have a huge potential for exports from India to Japan. **(Table 12)**.

Table 12: Pharmaceutical Products (HS-30) - Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	13945.6	49.8	0.4%	12390.5
300420	Medicaments containing antibiotics, put up in measured doses	460.8	0.7	0.2%	1100.6
300220	Vaccines for human medicine	361.3	0.9	0.3%	772.5
300390	Medicaments consisting of two or more constituents mixed together for therapeutic or prophylactic	219.2	10.1	4.6%	301.4
300410	Medicaments containing penicillins or derivatives thereof with a penicillanic acid structure	127.2	–	–	536.6
300450	Medicaments containing provitamins, vitamins, incl. natural concentrates and derivatives thereof	60.5	–	–	231.9
300660	Chemical contraceptive preparations based on hormones, prostaglandins, thromboxanes, leukotrienes	13.1	–	–	153.5

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

Articles of Apparel and Clothing Accessories, Knitted or Crocheted (HS-61)

The top source for imports in the product category HS-61 for Japan is China. However, China's share in Japan's imports have moderated from 88.3% in 2008 to 59% in 2019. Countries like Vietnam, Bangladesh, Cambodia and Thailand have grown their exports to Japan substantially during the last decade. Vietnam's share in Japan's imports of HS-61 increased from 1.8% in 2008 to 16.2% in 2019; Bangladesh's share increased from a paltry 0.1% in 2008 to 4.6% in 2019. Similarly, Cambodia's and Indonesia's share also increased from 0.1% and 0.5% in 2008 to 3.7% and 3.5% in 2019, respectively. The decline in share of China presents India with an opportunity to take advantage and fill the gaps, just like its Asian neighbours. **Table 13** lists potential items in this product category.

Table 13: Articles of Apparel and Clothing, Knitted or Crocheted (HS-61) – Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
611020	T-shirts, singlets and other vests of cotton	1358.4	12.3	0.9%	1957.2
610711	T-shirts, singlets and other vests of textile materials	1068.9	1.2	0.1%	657.9
611599	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton	1472.1	1.8	0.1%	196.3
610722	Men's or boys' nightshirts and pyjamas of cotton	24.7	–	–	149.9
610290	Special garments for professional, sporting or other purposes	42.1	1.1	2.5%	281.5
611420	Men's or boys' shirts of man-made fibres	290.0	–	–	150.7
610620	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets	168.6	1.3	0.8%	474.0

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
610690	Babies' garments and clothing accessories of cotton (excluding hats)	159.8	1.2	0.8%	708.9
610343	Men's or boys' underpants and briefs of cotton	153.9	1.5	1.0%	209.0
611693	Women's or girls' nightdresses and pyjamas of cotton	50.2	0.3	0.5%	264.0

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

Articles of Iron and Steel (HS-73)

China is the largest supplier of articles of iron & steel to Japan, with a share of 54.7% in 2019. Other important source of imports for this product category in 2019 were South Korea (12.2%), Taiwan (6.3%), USA (6.1%), and Vietnam (4.9%). India's share in Japan's imports of articles of iron and steel has stagnated over the last ten years. **Table 14** lists the select items of potential exports to Japan at 6-digit HS code level.

Table 14: Articles of Iron and Steel (HS-73) - Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
730890	Structures and parts of structures, of iron or steel, n.e.s. (excluding bridges and bridge-sections)	1919.6	4.7	0.2%	489.3
732690	Articles of iron or steel, n.e.s. (excluding cast articles or articles of iron or steel wire)	1450.1	23.3	1.6%	771.4

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
731815	Threaded screws and bolts, of iron or steel, whether or not with their nuts and washers	433.2	0.6	0.1%	305.9
730840	Equipment for scaffolding, shuttering, propping or pit-propping	221.3	–	–	203.7
732393	Table, kitchen or other household articles, and parts thereof, of stainless steel	208.8	1.2	0.6%	363.7
730630	Tubes, pipes and hollow profiles, welded, of circular cross-section, of iron or non-alloy steel	138.3	0.9	0.6%	281.6
730721	Flanges of stainless steel (excluding cast products)	81.9	0.9	1.1%	203.0
732510	Articles of non-malleable cast iron, n.e.s.	81.2	0.4	0.4%	159.6
732599	Cast articles of iron or steel, n.e.s. (excluding articles of non-malleable cast iron	71.9	2.9	4.0%	766.9
730820	Towers and lattice masts, of iron or steel	67.3	–	–	345.0
732619	Articles of iron or steel, forged or stamped, but not further worked	32.9	0.2	0.6%	284.8

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

Vehicles other than Railway or Tramway (HS-87)

Japan's imports of vehicles other than railway or tramway amounted to US$ 23.8 billion in 2019, which was 3.8% of its total imports in the same year. Germany, with a share of 27.3% was the leading exporter of vehicles other than railway or tramway to Japan in 2019. China was the second largest exporter with a share of 18.1% in the same year. Over the years, however, Germany's share in Japan's imports has declined from 31.6% in 2009 to 27.3% in 2019. During the same period Thailand and Vietnam has managed to increase their share in this product category in Japan's imports. India's share remains miniscule at 0.8% in 2019. **Table 15** lists select potential items of exports from India to Japan under vehicles other than railway or tramway.

Table 15: Vehicles other than Railway or Tramway (HS-87) – Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
870323	Motor cars and other motor vehicles principally designed for the transport of persons	4349.7	45.6	1.0%	1949.8
870322	Motor cars and other motor vehicles principally designed for the transport of persons	1880.2	5.3	0.3%	3178.2
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	1145.5	62.0	5.4%	2633.1
870321	Motor cars and other motor vehicles principally designed for the transport of persons	352.6	1.6	0.5%	1554.9
871120	Motorcycles, incl. mopeds, with reciprocating internal combustion piston engine of a cylinder	266.5	7.9	3.0%	1870.1

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
870840	Gear boxes and parts thereof, for tractors, motor vehicles for the transport of ten or more	1043.9	25.2	2.4%	416.0
870830	Brakes and servo-brakes and their parts, for tractors, motor vehicles	654.2	14.0	2.1%	491.8
871410	Parts and accessories of motorcycles, incl. mopeds, n.e.s.	277.0	4.8	1.7%	395.0
870850	Drive-axles with differential, whether or not provided with other transmission components	188.6	13.8	7.3%	388.9

Source: ITC Trademap and India Exim Bank Analysis

Articles of Apparel and Clothing, Not knitted or Crocheted (HS-62)

China with a share of 53% was the largest source of imports for Japan in this product category in 2019. China's share stood at 80.6% in 2009, and since then it has steadily declined. India's neighbours have filled the gap with Vietnam increasing its share from 5.6% in 2009 to 14.7% in 2019; Myanmar increasing its share from 1.2% in 2009 to 5.5% in 2019 and Cambodia and Bangladesh increasing their shares from 0.2% to 4.5% and 0.6% to 3.8%, respectively in the same period. On the other hand, India's share has increased only marginally from 1.4% in 2009 to 1.6% in 2019. **Table 16** list select potential items of exports from India to Japan under apparels (HS-62).

Table 16: Articles of Apparel and Clothing, not Knitted or Crocheted (HS-62)– Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton	801.6	7.4	0.9%	502.9
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	765.7	10.2	1.3%	228.2
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres	515.8	4.4	0.9%	520.2
620520	Men's or boys' shirts of cotton	514.4	9.4	1.8%	829.7
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	422.7	3.0	0.7%	664.6
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton	405.5	37.3	9.2%	489.5
621143	Women's or girls' tracksuits and other garments, n.e.s. of man-made fibres	375.9	1.9	0.5%	586.2
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	275.1	38.8	14.1%	574.2
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	121.9	8.4	6.9%	356.1
620444	Women's or girls' dresses of artificial fibres (excluding knitted or crocheted and petticoats)	101.4	5.1	5.0%	263.8

Source: ITC Trademap and India Exim Bank Analysis

Aluminium and its Articles (HS-76)

Japan's imports of aluminium and its articles originated majorly from China (35.5%), South Korea (11.5%), and Malaysia (8.4%). Over the last ten years Vietnam has doubled its share in Japan's imports of aluminium and its products from 1% in 2009 to 2% in 2019, whereas India's share has moderated from 0.9% in 2009 to 0.8% in 2019. **Table 17** presents select potential export items in the under the product category of aluminium and its articles.

Table 17: Aluminium and its Articles (HS-76) – Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
760110	Aluminium, not alloyed, unwrought	2744.9	139.5	5.1%	2984.4
760120	Unwrought aluminium alloys	2046.2	8.4	0.4%	782.2
761699	Articles of aluminium, n.e.s.	376.6	0.8	0.2%	362.6
760612	Plates, sheets and strip, of aluminium alloys, of a thickness of > 0,2 mm, square or rectangular	428.8	–	–	116.2

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

Iron and Steel (HS-72)

South Korea (37.4%), China (16.2%), Taiwan (10%), Kazakhstan (6.4%), and Brazil (4.2%) were top import sources for Japan in 2019 for iron and steel. India's share was 2.8%. South Africa and Brazil's share in Japan's imports of iron and steel have come down in the last decade. India's share has increased from 1.8% in 2009 to 2.8% in 2019. There is, however, scope for India to do better in this product category. **Table 18** presents select potential export items in the under the product category of iron and steel.

Table 18: Iron and Steel (HS-72) – Select Potential Export Items to Japan

HS Code	Product Label	Japan's Imports from World (US$ mn)	India's Exports to Japan (US$ mn)	India's Share in Japan's Global Imports (%)	India's Exports to World (US$ mn)
721049	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, hot-rolled or cold-rolled	711.7	–	–	334.8
720839	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils	253.9	–	–	1476.2
722300	Wire of stainless steel, in coils (excluding bars and rods)	119.4	1.5	1.3%	291.4
720211	Ferro-manganese, containing by weight > 2% of carbon	114.4	6.0	5.3%	229.9
720837	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils	104.7	–	–	287.5

Note: '-' denotes nil or negligible

Source: ITC Trademap and India Exim Bank Analysis

5.

INDIA-JAPAN STRATEGIC PARTNERSHIP

Asia-Africa Growth Corridor

India and Japan are Asian heavyweights who are also strategic partners with a common interest of promoting peace, security, stability, and prosperity in the world and especially in the Indo-Pacific region. India and Japan share essential values such as political liberalism, the market economy, the rule of law and democracy. India and Japan's relationship which was elevated to "Global and Strategic Partnership" in 2006, was upgraded to "Special Strategic and Global Partnership" in 2014. Further in 2015, the countries announced "Japan and India- Vision 2025- Special Strategic and Global Partnership- Working Together for Peace and Prosperity of the Indo-Pacific Region and the World" a joint statement that would serve as a guide for the "new era in Japan-India relations."

The meeting of the Prime Ministers of India and Japan in 2016, advanced the relationship between the two countries even further, with a focus on shared prosperity and stability of the Indo-Pacific region. In the joint statement of the 2016 India- Japan Summit, the two prime ministers stated that India and Japan "would promote cooperation and collaboration in Africa, with the objective to synergise their efforts and explore specific joint projects including in the areas of training and capacity building, health, infrastructure and connectivity. In this regard, they also expressed their intention to work jointly and cooperatively with the international community to promote the development of industrial corridors and industrial network in Asia and Africa". Thus, giving birth to the idea of Asia-Africa Growth Corridor.

This megaregional programme is aimed at improving ties between Asia and Africa, bringing economic prosperity and encouraging sustainable development. The cornerstones of this partnership would

be institutional and industrial corridors and networks for capacity enhancement, free and seamless movement of people, trade & investment, energy and partnership for infrastructure. This partnership is officially named as “Asia-Africa Growth Corridor: Partnership for Sustainable and Innovative Development” (AAGC).

The vision for AAGC is built on the four pillars of Development and Cooperation Projects, Quality Infrastructure and Institutional Connectivity, Enhancing Capacities and Skills and People-to-People partnership. The countries in Africa are different stages of development and thus, have different needs. The development projects under the AAGC would be aligned with development priorities of different countries and sub-regions of Africa, taking advantage of simultaneous homogeneity and heterogeneity among them. The AAGC is envisioned to give priority to development projects in health and pharmaceuticals, agriculture and agro-processing, disaster management and skill enhancement[29]. The AAGC led growth in Africa and Asia will be responsive to the collective commitment for the Sustainable Development Goals (SDGs).

As a resource centre and a continent of 54 countries, Africa attracts significant interest and investment from around the world, including Asia’s three major economies – Japan, China, and India. Japan’s Africa policy first received meaningful attention in 1993 during the Tokyo International Conference on African Development (TICAD). Tokyo’s official position was that the decline of assistance from developed countries towards Africa represented an opportunity for Japan.

Under AAGC, Japan’s business interest in teaming up with Indian partners to invest in Africa aligns with Tokyo’s and New Delhi’s mutual desire to develop a common agenda that brings together Japan’s ‘Free and Open Indo-Pacific Strategy’ and India’s ‘Act East’ policy. A 2017 Japan External Trade Organization (JETRO) survey shows that Japanese companies operating in India have a significant interest in the African market, which they see as the most important future destination. India is a good springboard to enter the African market because it is geographically closer to Africa, enjoys strong historic and cultural ties with the continent with its business and diaspora networks, and shares similar market characteristics and product needs.

Asia and Africa together account for around 70% of the global population and 37% of global GDP[30]. While the Asian economies have reaped the benefits of globalisation as their export led growth model has proved beneficial for economic growth of the countries, Africa is still on the growth path. Opportunities for both the regions are immense in the coming decade. The complementarity

[29] Asia Africa Growth Corridor- Research and Information Systems for Developing Countries
[30] IMF WEO

between these regions forms a basis for mutually beneficial partnership. The AAGC aims to improve ties between the continents, bring economic prosperity and encourage sustainable development

Complementary Role of India and Japan in Africa

Africa is the second-largest continent in the world, with a collective GDP of US$ 2.43 trillion in 2019. The region contracted by 2.1 percent in 2020, as a result of the COVID-19 pandemic related global economic disruption. Africa is poised to stage economic recovery in 2021 with the economic growth set to come into positive territory and witness 3.4 percent expansion year on year[31].

Inadequate infrastructure has been a constraint to accelerating and sustaining growth in Africa. Africa remains one of the continents with a huge infrastructure deficit, which has adverse impacts on transaction costs for traders and investors alike, forming part of the non-tariff barriers that restrict trade within Africa and between its regions and other parts of the world. Estimates by the African Development Bank (AfDB) suggest that the continent's infrastructure needs amount to US$ 130–US$ 170 billion a year, with an annual financing gap ranging between US$ 67.6 and US$ 107.5 billion. This vast infrastructure gap in Africa, which includes transport and utilities infrastructure, must be urgently addressed so as not to restrict increased trade integration.

India-Africa Relations

For India, Africa is an important trade partner and with a view to facilitate and further enhance bilateral trade and commercial relations with countries in Africa, India has put in place important policy measures as also institutional frameworks to create an enabling trade and business environment.

Major policy initiatives and institutional frameworks include, among others, Focus Africa Programme, India's Duty Free Tariff Preference (DFTP-LDC) Scheme for Least Developed Countries, Pan-African E-Network: India and PanAfrican Countries Initiative (now called e-VidyaBharati and e-AarogyaBharati (e-VBAB) Network Project), IBSA Initiative, Inter-bank Cooperation among BRICS members, and India-Africa Forum Summit, among others. The synergy that exists between India and Africa can be gauged from the robust trends in India-Africa trade relations which increased from US$ 42.0 billion in 2009 to US$ 68.4 bn in 2019, peaking in 2014 at US$ 75.0 billion.

[31] AfDB March 2021

India has been a long-time development partner for Africa. India has over the period emerged as a strong partner counter for many African countries in their developmental endeavours through several Lines of Credit (LOCs) extended to developing partner countries in Africa. These LOCs supplement the 'Focus Africa' programme of the Government of India (GOI) and are extended especially to priority sectors, identified by GOI for mutual cooperation and benefit. These LOCs are earmarked for infrastructure and related projects. The countries in the African continent have always been a focus region for India Exim Bank, and thus a critical component of its strategy to promote and support two-way trade and investment.

Japan-India-Africa Relations

Japan's complementary role in Africa is in its strong Official Development Assistance (ODA) programme in the continent.

A 2017 Japan External Trade Organization (JETRO) survey shows that Japanese companies operating in India have a significant interest in the African market, which they see as the most important future destination. In 2017, JETRO hosted three Africa business seminars in India, arranged a Japanese business delegation to Ethiopia and networking activities with Indian businesses there, and coordinated a business-matching event for Japan–India cooperation in Africa.

As a common partner of Asian and African countries, India is positioned to play a crucial role in the AAGC. In doing this, India stands to improve its own integration into the global value chains of production. Thus, both India and Japan stand to benefit from this collaboration. India could enhance its exports of manufactured goods, while Japanese companies based in India could take advantage of Indian business networks in Africa to enter African markets. Japanese companies could then enjoy large economies of scale by expanding their business in the continent, while catering to the needs and developmental aspirations of the African countries.

Re-thinking AAGC

For the AAGC to emerge as a strong and effective platform for partnership cooperation, it would be imperative for India and Japan to revisit and rethink for immediate actionable priority areas, to make it more attractive and beneficial, with greater private sector participation. It would be prudential to envisage a partnership that aims to achieve both strategic and business interests. India and Japan could possibly align their agenda for cooperation in line with the "2050 Africa's Integrated Maritime Strategy" and "Africa Vision 2063" for more opportunities in the post-COVID era.

6.

KEY OBSERVATIONS AND RECOMMENDATIONS

India and Japan are strategic partners with a common interest of promoting peace, security, stability, and prosperity in the world and especially in the Indo-Pacific region. India and Japan share essential values such as political liberalism, the market economy, the rule of law and democracy. Japan has been one of the most important economic partners for India's development. It has been extending bilateral loan and grant assistance to India since 1958 and is the largest bilateral donor for India. Japan's Official Development Assistance (ODA) commitment in FY 2018-19 was at a record high of JPY 537.4 billion (approximately US$ 4.9 billion).

Review of the India-Japan CEPA

The India-Japan Comprehensive Economic Partnership Agreement (CEPA) signed on February 16th, 2011, aimed at eliminating tariffs on 90 percent of Japanese exports to India, such as auto parts and electric appliances, and 97 percent of imports from India, including agricultural and fisheries products, until 2021.

Indian exports to Japan are presently affected by a number of issues, which include both tariff, and Non-tariff Barriers like Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). India faces NTBs in sectors like pharmaceuticals, as there is a requirement to partner with Japanese enterprises/trading houses for local marketing. This escalates costs for the Indian manufacturers as it takes time to build a product profile. Indian manufacturers also report difficulties in product registration in Japan largely because the guidelines are said to be available only in Japanese.

In Japan, the average tariff on products of export interest to India is 7%, which is higher than the simple average (4%) of tariff of the country as a whole. This is despite the fact that India has a CEPA with Japan. Tariffs on products of Indian interest for exports to Japan like dairy products, cereals and preparations, rice, leather and footwear are very high[32]. Thus, in the subsequent CEPA review negotiations, India can seek for tariffs reduction in these product categories. Other higher tariffs are imposed on clothing and some food products, and hence, also be reconsidered in the negotiations.

In order to achieve a target of US$ 5 trillion economy, India should aim to increasing its exports to US$ 1 trillion. In this direction, it is imperative for India to utilize its trade agreements to its maximum advantage.

Enhancing Trade with Japan: Addressing Trade Deficit

The CEPA with Japan is among the most comprehensive trade agreements that India has entered with any country. However, post the signing of CEPA, even as trade between India and Japan grew from US$ 13.1 billion in 2010 to 17.6 billion in 2019, India's exports to Japan have remained at the same level in 2019, as they were in 2010. In fact, India's exports which witnessed growth during the period 2011-13, and peaked at US$ 7.3 billion in 2013, have since then declined to the pre-CEPA levels. Imports, on the other hand, have increased by around 53% from US$ 8.3 billion in 2010 to US$ 12.7 billion in 2019. India has been persistently running trade deficit with Japan, which has worsened by more than two-fold from US$ 3.5 billion in 2009 to US$ 7.9 billion in 2019. Thus, even though the total trade between both countries has almost doubled in last 12 years, the widening trade deficit is a matter of concern for long term sustainability of bilateral trade relations.

As shown in the previous chapters of this study, there is significant potential for India's exports in categories such as mineral fuels and oils, electrical machinery and equipment, machinery and mechanical appliances, optical, photographic equipment, pharmaceutical products, articles of apparel and clothing, and articles of iron and steel. Efforts should be made to focus upon such identified items which hold potential for exports from India to Japan, based on India's export capability and import demand in Japan.

Beyond Bilateral Trade- Partnership for the AAGC

The potential for India and Japan's relation extends beyond the sphere of bilateral trade and investments. India and Japan have aimed at coordinating India's "Act East" policy and Japan's

[32] Study on Non-Tariff Measures- India Exim Bank

vision of a free and open Indo-Pacific. Thus, post the 2016 India-Japan summit, the leaders of the two countries had expressed their intention to "work jointly and cooperatively with the international community to promote the development of industrial corridors and industrial network in Asia and Africa". This had given birth to the idea of Asia-Africa Growth Corridor (AAGC), which is a megaregional programme aimed at improving ties between Asia and Africa, bringing economic prosperity, and encouraging sustainable development by building institutional and industrial corridors and networks for capacity enhancement, encouraging free and seamless movement of people, trade & investment, energy and enhancing partnership for infrastructure.

India has put in place important policy measures as also institutional frameworks to create an enabling trade and business environment with Asia and Africa. India has over the period emerged as a strong partner counter for many African countries in their developmental endeavours through several Lines of Credit (LOCs) extended to developing partner countries in Africa. These LOCs supplement the 'Focus Africa' programme of the Government of India (GOI) and are extended especially to priority sectors, identified by GOI for mutual cooperation and benefit. Japan's complementary role in Africa is through its strong ODA programme in the continent.

India could be a good springboard for Japanese companies to enter the African market because it is geographically closer to Africa, enjoys strong historic and cultural ties with the continent with its business and diaspora networks, and shares similar market characteristics and product needs.

Therefore, as a common partner of Asian and African countries, India is positioned to play a crucial role in the AAGC. In doing this, India stands to improve its own integration into the global value chains of production. Thus, both India and Japan stand to benefit from this collaboration. India could enhance its exports of manufactured goods, while Japanese companies could take advantage of Indian business networks in Africa to enter African markets. Japanese companies could then enjoy large economies of scale by expanding their business in the continent.

India and Japan have an important role to play, regionally and globally, in the coming decade. Stronger trade integration between the countries would serve to enhance this partnership further in the 'New Asian Era'. Through proposed implementation, the AAGC has the potential to emerge as a strong partnership mechanism in a new global order.

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