

Revisiting & Rejuvenating India-Japan Trade Relationship: The Way Forward

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Abstract

For ages, India's allegiances with Japan remain free from any ideological, cultural, or territorial discord. Japan's impression in India has largely remained pleasant. Even direct trading begun during the Meiji era (1868-1912), once Japan straddled modernized persona. Similar character showed in 1991 when Japan supported India's balance of payments dilemma. Lately, these two have developed amicable relations that not only cover economic, commercial, and cultural exchanges, but also safety and security. Therefore, as significant opponents in Asia, they consented to the Japan-India Global Partnership in August 2000, recently ratified the India-Japan Comprehensive Economic Partnership (CEPA) in 2011 to meticulously diversify their long-established bilateral relations. Given this context study has been undertaken to better grasp the trade flows between India and Japan. In this study decadal information (2010 – 2020) has been analyzed by computing 'Trade Intensity Index'. Concludes Japan remains a significant trading partner to India in imports, as India imports more than it exports to Japan. Export Intensity Index dropped over the period from 0.47 in 2010 to 0.39 in 2020 and Import Intensity Index was 0.46 in 2010 and has smoothly sublimated to 0.67 in 2016 and then 0.74 in 2020. Unfortunately existing level of trade does not accurately reflect true power and ability, endows with an exquisite potential for Japan and India to trade together.

Keywords: India-Japan CEPA, Trade Intensity Index, Export Intensity Index, Import Intensity Index.

JEL Classification Code: F01, F14, F17.

Introduction

Asia is gradually establishing itself as a major power periphery, “Arc of Advantage”. Japan and India constitute active and perhaps significant participants in Asia, divulging influence in the region. According to the International Monetary Fund, Japan has the third-largest economy in

terms of nominal GDP for 2020. Grounded on stout government-industry collaboration. Whereas India has the sixth-largest economy in terms of nominal GDP, had displaced the United Kingdom from the fifth slot in 2019 but was pushed back to sixth place in 2020. India has been pushed off stride slightly mostly by repercussions of the outbreak; though a UK-based think-tank claimed that the UK jumped ahead of India due to its rupee's depreciation.

Moreover, Indian dominance is expected to persist in the long run, seeing ever-expanding opportunities. As per its forecast, the Indian economy would rise by 9% in 2021 but 7% in 2022. Also, India will surpass Japan by 2030, the United Kingdom by 2025, Germany by 2027, and will be the 3rd largest economy in the world. In light of this, both nations are projected to be major drivers of future growth in the region.

The trade link between Japan and India has gradually evolved; the volume of trade between the two nations has improved. In 2020, India became Japan's 18th, while Japan was India's 12th largest trading partner. However, exports to Japan shrink to US\$ 4.52 billion in 2019-20 as against US\$ 4.86 billion a year prior while imports have reduced to US\$ 12.43 billion as against US\$ 12.77 billion. It is worth noting that, India has obtained a somewhat positive fraction of more than 3% of Japan's imports within just three product types: organic chemicals, natural or cultured pearls, precious or semi-precious stones, and fish and other aquatic invertebrates. This year (2021) in July, India's goods export reached an all-time high of \$35.2 billion still has an unexploited export potential of \$3.2 billion. As a proportion of other key products are still negligible, this can be a strong indication of prospects of bilateral relations. Here current study will uncover contemporary developments and patterns in the economic interactions between India and Japan. Besides, trade intensity calculation.

Literature review

India-Japan economic collaboration began in 1958 and has been robust since then. It all started with official development assistance (ODA) – Japan's 1st ODA loan to any country. India now has the highest number of Japanese

financing to any country. It contends that Japan's ODA to India might assist indigenously as well as internationally by stimulating the economy. Japan's intention here was to develop this partnership to build influence not just on India but the Asian continent (Jain, 2017).

The chronicle of official development assistance (ODA) is matched in certain ways by the plotline of foreign direct investment (FDI). Japan is presently India's third-largest FDI supplier. The identification of India by Japanese business goes way to the 1990s and is strongly positioned to meet the resurgent need for engineering and technology capabilities in mega initiatives like Make in India, Smart Cities, and AMRUT. The investments symbiosis is impossible to overlook. JICA financing has helped to build desalination in Chennai, drainage system in Bangalore and Bhubaneswar, and several major infrastructure investments such as high-speed trains, freight corridors, & urban public transport facilities. JICA's involvement is diversified, reflecting a focus on India's overall economic growth. Japan is heavily involved in building Indian infrastructure (Nataraj & Bhunia, 2018; Buckley et al., 2012). Japanese enterprises are keen on India's steady market potential – especially the rising middle class. Along with updated specifics of the event, Japanese mergers and acquisitions (M&A), as well as engagement in the IT sector, finance, and retail, are good instances of service sectors that have been reported in India. Japanese small and medium-sized businesses (SMEs) are constantly turning to India (Masanori, 2012 a).

Japanese FDI into India has barely scratched the surface of its potential. Meanwhile, bilateral trading between India and Japan has been increasing over time. Yet, India's exports to and imports from Japan as a percentage of its total trade have stagnated, indicating a significant perspective of bilateral trade rise. This lays the groundwork to derive maximum benefits for India – CEPA contends that it has significant trade and investment-enhancing potential (Das, 2014; Masanori, 2012 b). Throughout 2013 - 2017, India's exports fell sharply, to US\$3.9 billion. In 2016–17, bilateral trade was \$13.6 billion, down 6.21 percent from the previous year. Two-way merchandise trade, specifically

India's exports to Japan, has experienced significant variations over the last decade, while the value being largely unchanged in 2019 compared to 2010. Whereas India's services exports have increased somewhat though remain below potential. More importantly, tariffs are not a real concern for Indian exports, while dealing with Japan's Non - tariff measures are perhaps a tough proposition for exporters. Moreover, NTMs prevalence with the purported goal of ensuring human safety and health, it becomes exceedingly hard to convince the Japanese. Linguistic obstacles, Japan's distinctive industrial structure, lengthy immigration procedures, and other issues all obstruct exports from India to Japan. Hence, enabling our export sector to adhere to quality guidelines and government, agencies, the industry must collaborate to improve (Rai, 2021).

The export and import intensity index for both Japan and India was calculated from 1995 to 2005. Japan's exports and imports sensitivities both are significantly below 100, implying that it trades with India far less than one might anticipate given its global trade share. As a result, Japan has a lot of room to grow its commerce with India. In comparison to Japan, India's export level has significantly dropped over the years. As evidenced by the fact that the export index has dropped from 101.1 during from 1995 through 2005, was 46.95. With such a downward trajectory, one may assume that India hasn't changed its export assortment to the Japanese market throughout the period. In 2005, the import intensity index fell to 48.13 from 73.74 in 2004. This is attributable to the fact that India acquires mostly capital goods, machinery, and transportation items (Kalirajan & Bhattacharya, 2008).

On the other hand, China and Japan markets have evolved deeply entwined in the past few decades, a trend that can have long-term implications for the global economy (Alvstam et al., 2009). The strengthening of limited interactions connecting Japan and India to a universal and shrewd alliance has been a crucial, adjustment in foreign politics in current history. Relations between Japan and India have grown considerably over the past decade. With the present COVID-19 posing serious issues to the worldwide context both India and Japan must conscript

each other as significant partners in the global economy. Against this backdrop, current dynamics in Japan endeavors to help enterprises shift their manufacturing units & supply networks (Taneja et al., 2020). Technological breakthroughs in infrastructure and also other fields such as IT-ITeS, hospitals, and financial services will reinforce India's growth, whereas Japan may prosper from a strong, low-cost reservoir of youth players and readily available, addressing its demographic challenges caused by an aging society (Roy & Chanda, 2018).

Japan has attempted to develop formal relations between the two countries toward a superior stage, with greater economic and politico-strategic elements, in line with China's ascension as well as Indo-US engagement (Joshi, 2013).

Study objectives

- To explore the economic interplay between India and Japan.
- To consider the burgeoning strategic relationship between India and Japan.
- To evaluate the trade interaction between India and Japan.

Research Methodology

Bilateral trade fluxes across India and Japan are being reviewed in this research to understand the trade potential and future correspondence. For the said purpose of the study, decadal data from 2010 to 2020 have been analyzed. Trade Intensity Index has been calculated in terms of the country's export and import potential in the Japanese market. Further, this study based is on secondary data. Details for studying India's trade connections with Japan were gathered from an online database of the ITC trade map, IMF, World Bank, and reputable journals, periodicals, and websites among other sources.

1 Trade intensity index: trade intensity index takes into consideration the intensity of bilateral trading involving two sides. The trade intensity index is sorted into 'export intensity index' and 'import intensity index'. Further index values vary from 0 to infinity (Kojima, 1964). If the magnitude of the ratio equals 0, it means that the countries

concerned have no trading tie. Whereas if it is greater than one, it indicates that a country has a significant intensity in exports/imports with another country, and vice versa. To put it another way, the higher the score, the stronger the country's export or import opportunities. Ergo every exporter or importer will indeed be able to cull out market options with so much ease.

The formulae for computing the Export Intensity Index and Import Intensity Index as shown below

2 Export Intensity Index:

$$XII_{ijt} = [X_{ij} / X_{iw}] / [M_{jw} / (M_w - M_{iw})]$$

Where,

XII_{ijt} is Export Intensity Index of India's Trade with Japan; X_{ij} is Exports of India to Japan; X_{iw} is Total Exports of India from the world; M_{jw} is Total Imports of Japan from the world; M_w is Total World Imports; M_{iw} is Total Imports of India from the world; $t = 2010$ to 2020 .

3 Import Intensity Index:

$$MII_{ijt} = [M_{ij} / M_{iw}] / [X_{jw} / (X_w - X_{iw})]$$

Where,

MII_{ijt} is Import Intensity Index of India's Trade with Japan; M_{ij} is Imports of India from Japan; M_{iw} is Total Imports of India from the world; X_{jw} is Total Exports of Japan to the world; X_w is Total World Exports; X_{iw} is Total Exports of India to the world; t is $2010 - 2020$.

India and Japan's strategic involvement

India-Japan against China

Japan and India have maintained their amicable relations, which are based on a rich legacy of exchanges. In addition to the complementarities that unite their economies, the partnership has dramatically widened from their old-time capital commitments to a diverse range of problems, namely regional cooperation, maritime security, anthropogenic climate change, and UN initiatives. Besides, the India-Japan collaboration is considered to be one of the most instantaneously developing across Asia, having effloresced as an important contributor to the Indo-Pacific stability and security.

Both consider each other as partners who are responsible for and have what it takes to global and regional concerns. Being powerful, affluent, and energetic India is thus Japan's preference, and vice - versa. In light of the above and the present world circumstances, the two leaders resolved to strengthen the strategic emphasis of Japan and India's global collaboration (Japan-India Partnership in a New Asian Era, n.d.).

Given the necessity to combat Chinese regional belligerence in the South and East China Seas they got down buckling on their security interplay. Both parties acknowledged the role of their alliance and promised to fight up against China. This strategy against China began in 2014 with Prime Minister Narendra Modi and Shinzo Abe now Mr. Suga also voiced anxiety over China's unilateral activities, expected to continue. Furthermore frequent conflicts between India and China have swayed benign public sentiment of antagonistic China policy. In less than a decade, have strengthened high-level ministerial and bureaucratic interactions, undertaken joint military exercises, and signed military treaties namely the Acquisition and Cross-Servicing Agreement (ACSA) (Pant, 2021).

In the meantime, the India-Japan relationship has consolidated into a phase of relative serenity. With far more multifaceted foreign policy within India than materialized even during the Cold War. Incorporate efforts to establish India as maritime power but also to help build cohesion with countries, especially Australia, the United States, and Japan. This was an appurtenance to a promise by the Japanese across the ideological spectrum to develop bilateral relations with India.

India and Japan collaboration on diverse initiatives

Japan's Free and Open Indo-Pacific (FOIP) mandate and India's Act East Policy are parallel concepts that allow the two sides to strengthen their geographical consortium. As an outcome accepted vocation and are merging their energies in neighboring land in wake of Indo-Pacific orientation. The unveiling of the power structure of an LNG terminal in Sri Lanka in 2018 heralded India and Japan's

third-country engagement. Lately, the duo has been active in the development of a wide assortment of infrastructure investments in Africa as part of the Asia-Africa Growth Corridor (AAGC) roadmap. Though the cooperation is not explicitly intended to reinforce the various potential steps to mitigate perceived concerns about China's rising presence, it does enable fairly small countries to limit their reliance on China but rather associate with other economies (Banerjee & Basu, 2021).

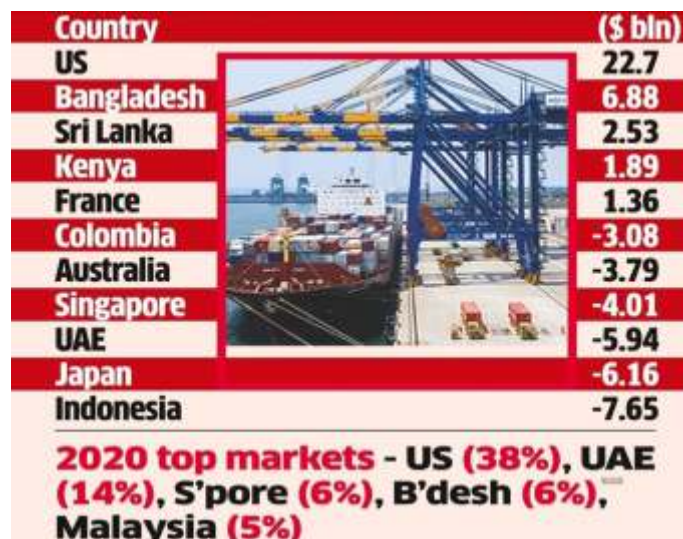
The Chilahati-Haldibari rail link, the Dhaka-Siliguri rail link and the Araihasar Economic Zone, Ramgarh-Baraiyarhat Highway, and the Jamuna Railway Bridge are some of the megaprojects in Bangladesh that the two nations support. Several other mega connectivity initiatives are India-Myanmar-Thailand Trilateral Highway, Kaladan Multi-Modal Transit Transport Project (corridor linking India's northeast regions to Myanmar). Meanwhile, Myanmar has signed a trilateral accord with India and Japan to explore technology upgrades into different schools in the Rakhine state.

The strategy has indeed paid off handsomely in terms of safeguarding geopolitical goals keeping aside subtle differences in certain areas to Indo-Pacific macroeconomic layout. The India-Japan alliance has proven increasingly relevant now than ever with varying power dynamics involving the United States and China in the world arena.

Discussion over India-Japan Trade Intensity

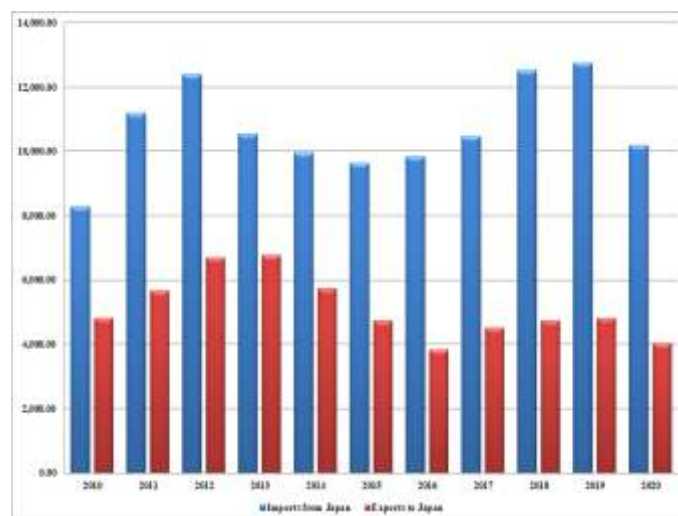
India's trade with some elite Indo-Pacific economies improved eightfold over the years, approaching \$262 billion in 2020 from \$33 billion in 2001, with the US being its closest ally with a dominant share of 29 percent. India seemed to have a trade surplus with nine out of the twenty-odd countries inside the Indo-Pacific province, which either includes states from the American continent to Africa. Almost half of India's exports go to profoundly governed markets such as America, Europe, and Japan. There's ample diminution in trade deficits with various Indo-Pacific nations, especially Japan; this is a good sign for the future in terms of India - Japan trade relations (India Had Trade Surplus, 2021).

Figure 1: India's trade balance in 2020



Source: The Economic Times; study by industry chamber Confederation of Indian Industry (CII), 2020

Figure 2: India's trade with Japan (in US million dollars)



Source: Author's calculation based on data published in International Monetary Fund, Direction of Trade Statistics (DOTS) database.

Chart 2 illustrates that India imports more than it exports to Japan. Annual bilateral trade data has grown for three years beginning from 2010 till 2012; followed by a substantial stasis in bilateral trade volumes over the next five years. Whatsoever, the rise could be seen in 2018 and 2019, although 2020 was a year of corona virus outburst, therefore trade figures ended up falling.

Table I: Trade intensity between India Japan

Year	Export intensity	Import intensity
2010	0.47	0.46
2011	0.38	0.52
2012	0.45	0.57
2013	0.47	0.58
2014	0.41	0.58
2015	0.44	0.63
2016	0.38	0.67
2017	0.39	0.58
2018	0.37	0.63
2019	0.38	0.69
2020	0.39	0.74

Source: Author's calculation based on data published in International Monetary Fund, Direction of Trade Statistics (DOTS) database.

Table I professes that Japan's apportionment in Indian trade has been minimal and perhaps even dropping over the period, as is observable from languishing Export Intensity Indices. De novo, the EII was 0.47 in 2010, and it gradually plummeted over time, falling to 0.41 in 2014; EII incessant about 0.38 here until the year 2020 except for 2015 & 2016. Still, in reference to imports, Japan remains a significant trading partner to India. As the Import Intensity Index (III) was 0.46 in 2010 and has smoothly sublimate to 0.67 in 2016 and then 0.74 in 2020. Nonetheless, amid widespread and extensive attempts, the intensity of the bilateral trading frameworks in between pair stays recalcitrant. But, the situation can be improved through an increased number of agreements.

Since systematize discussions and numerous bilateral and multilateral meetings at various levels might facilitate market access. Consequently, New Delhi and Tokyo have efficiently used their annual prime ministerial summit to breviloquent utter on barriers and settle long-standing difficulties to bilateral cooperation (Khan, 2017). India and Japan's involvement has been steadily upgraded from 'Global Partnership' in 2000 to 'Strategic and Global Partnership' in 2006, and afterward to 'Special Strategic and Global Partnership' in 2014. These interactions have been reinforced by a range of mutually beneficial economic accords, like the India-Japan Comprehensive Economic Partnership (CEPA).

Sub-committee meetings convened recently underneath the Institutional Mechanism of the India-Japan Comprehensive Economic Partnership Agreement (IJCPEA), star issues raised amid industry stakeholder consultations. Japan has authorized the exporting of mangoes to India's National Plant Protection Organization (NPPO) even without pre-clearance from their officials. Immature bananas, onions, maize, soybeans, wheat, mustard, and barley have been allowed access to Japanese markets in, pursuant to ordinary import quarantine criteria. Both nations have consented to accept e-Certificates of Origin in place of physical format. Japan has affirmed to an erstwhile insistence that all Black Tiger shrimp exports be refrained from obligatory inspection by Japanese inspectors. Consequently, based on earlier inspections, Japan has opted to put a regular monitoring system; whittled down the export inspections from 100% to 30% for shipments from India.

Way Forward

Given the necessity to combat Chinese regional belligerence India-Japan attempted to align India's "Act East" strategy with Japan's ambitious free and open Indo-Pacific. As a corollary, the officials had professed their readiness to operate together but also in the regional and global congregation; to encourage the creation of industrial corridors and infrastructures. Since the scope of relations transcends beyond bilateral trade and investment.

Moreover, Japan remains a significant trading partner to India in imports, as India imports more than it exports to Japan. The existing level of exports does not accurately reflect the power and ability of the states' trade, having an unexploited export potential of over \$3 billion for Japan. Furthermore, as is observable from Export Intensity Indices and Import Intensity Index difference. EII dropped over the period from 0.47 in 2010 to 0.39 in 2020 while, III was 0.46 in 2010 and has smoothly sublimate to 0.67 in 2016 and then 0.74 in 2020.

Nonetheless, Indian exporters on any occasion should concentrate on the value-addition stratum so the situation can be improved. Also, the Indian agro-heritage with its diverse local topography has brought a significant addition to the global food availability. Whereas, Japan is indeed a heavyweight net importer of food items, subservient on natural resource inputs. Its wellspring is the United States. There's no point vilify India's ability to supplant the United States. Even, Indian exports have a great deal of potential in subcategories notably mineral fuels and oils, electrical machinery and equipment, machinery and mechanical appliances, optical, and so on. Meanwhile, Japan has shriveled some manufacturing pro to China and the Republic of Korea. So a resurgent India has created several trade prospects for Japan.

Going forward, it's critical especially for India, to be resourceful and enact proactive policies. To reinvigorate the trade trend and realign global supply chain operations. As India's decision to step down from the RCEP will spring in a loss of trade also India could have been exporting its competitive strength: IT and Pharma sector. As India gains traction, it needs outward cooperation and Japan is one such country that can genuinely emerge as reliable companion with its technical brilliance, manufacturing professionalism, & financial capability.

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