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ECONOMIC CO-OPERATION BETWEEN INDIA AND JAPAN

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ABSTRACT

The economic relations between India and Japan have vast potential for growth given the obvious complementarities that exist between the two Asian economies. Japan's interest in India is increasing due to variety of reasons including India's huge and growing market and its resources, especially the human resources. The signing of the historic India-Japan comprehensive economic partnership agreement (CEPA) and its implementation from August 2011 is expected to further accelerate growth of trade, economic and commercial relation between the two countries. India-Japan economic cooperation has also grown over the past few years Japan currently holds the position of India's 4th largest investor. In the financial year 2015-16 India and Japan bilateral trade stood at US\$14513 millions along with a cumulative figure of US\$ 19.43 billion of Japanese foreign investment into India over the time period from 2000 to December 2015. The two countries can also be seen engaging in crucial economic initiative figure including 2011 joint CE+PA. Which seeks to eliminate around 94% of the tariff between Japan and India within 10 years Japan and India committed to working together to promote peace stability and prosperity through economic growth and development in the Indo Pacific including Africa enhancing connectivity through quality infrastructure and capacity building of our partner.

KEYWORDS: Co-Operation, India, Japan, Economic

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INTRODUCTION:

The friendship between India and Japan has a long history rooted in spiritual affinity with strong cultural and civilizational ties. The modern nation states have carried on the positive legacy of the old association which has been strengthened by shared values of belief in democracy, individual freedom and the rule of law. Over the years, the two countries have built upon these values and created a partnership based on both principle and pragmatism. Today, India is the largest democracy in Asia and Japan the most prosperous. The beginning of the 21st Century witnessed a dramatic transformation in bilateral ties. Guided by the strategic vision of Prime Minister Yoshiro Mori, the leadership of the two countries, cutting across party lines, recognized the merit of substantive bilateral engagement. Recognition of the mutual advantage in enhancing and widening the ambit of the bilateral relationship has driven India-Japan ties in the past decade and a half. During Prime Minister Mori's path-breaking visit to India in 2000, the Japan-India Global Partnership in the 21st Century was launched providing the much-needed impetus for the trajectory of relations to soar to new heights. The Global Partnership formed the foundation for the strengthening ties in diverse fields, including identifying strategic convergences. The joint statement signed by Prime Ministers Manmohan Singh and Shinzo Abe in 2006 added a new dimension to factor in new challenges as they emerged, and the relationship was upgraded to a Global and Strategic Partnership with the provision of annual Prime Ministerial Summits. India is the only country with which Japan has such annual summit meetings alternating between Delhi and Tokyo. The elevation of relations and the annual summit mechanism, there has been unprecedented progress in the bilateral economic and strategic engagement in recent years resulting in cooperation in a vast saw the fields including defense and security and the conclusion of a Comprehensive Economic Partnership Agreement (CEPA) in 2011.

In the economic domain, the complementarities between the two countries are particularly striking.

- * Japan's ageing population (23% above 65 years) and India's youthful dynamism over 50% below 25 years
- * India's rich natural and human resources and Japan's advanced technology
- * India's prowess in services and Japan's excellence in manufacturing
- * Japan's surplus capital for investments and India's large and growing markets thanks to the burgeoning middle class.
- * Japanese ODA, for long the backbone of the bilateral relationship, still continues to provide long-term loans for India's infrastructural development.

COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT:

The Comprehensive Economic Partnership Agreement (CEPA) between India and Japan was signed on 16th February, 2011 and came into force from 1st August of the same year. A part from accelerating business activities, the deal aimed to eliminate 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. Since the introduction of CEPA, India-Japan merchandise trade has increased by 38 percent, with total bilateral trade expected to reach US\$24 billion by March 2013. Keeping in view the agreement, Mukhopadhyay and Bhattacharyay 2011 evaluated the economy-wide impact of the trade integration between Japan and India using Global Trade Analysis Project analysis.

It was found that the output will increase marginally for both India and Japan in 2020 after tariff reduction compared to Business as Usual. The results expected a marginal export growth, a fair amount of trade creation and improvement in the welfare of both the countries by 2020 with the successful implementation of CEPA. The agreement had two major concerns, namely the infrastructure in India and non-tariff barriers in Japan. On the infrastructure front, the two countries agreed to collaborate on the huge, US \$90-billion Delhi-Mumbai Industrial Corridor project in 2006. The key agenda of the DMIC project involves the development of nine industrial zones, a high-speed freight line, three ports, six airports, a six-lane intersection-free expressway, and a 4,000-megawatt power plant. The project agreement appears highly promising in the environment of the new manufacturing policy where by India is targeting to increase the share of manufacturing in GDP to 25 percent within a decade, potentially creating 100 million jobs.

INDIA-JAPAN CEPA NEGOTIATIONS: ISSUES

In January 2007, India and Japan launched negotiations on a Comprehensive Economic Partnership Agreement CEPA. The process was initiated in April 2005 when a joint study group was set up to explore the possibility of a bilateral agreement. The study group concluded its work in 2006 with a recommendation to start negotiations. Being a comprehensive agreement, the Indo-Japan CEPA will cover trade in goods as well as services and chart out the modalities for investment facilitation between the two countries. Under a framework agreement concluded by the two countries, both India and Japan are expected to commit to a zero-duty customs regime on substantially all imports from each other though currently, a large number of Indian exports made to Japan face stiff entry barriers.

So far, the issues regarding Japan's unwillingness to lower tariffs on certain products of export interest to India, Technical Barriers to Trade and Japan's stringent sanitary and measures have remained unresolved. In

services, the major hurdle lies in the area of Mutual Recognition Agreements. An MRA will ensure that both parties accept foreign professionals with degrees and diplomas offered in their home country. Computer-related and IT services, accounting, auditing, and book-keeping services, architectural services, engineering services, medical services, advertising services, and services for telecommunication and audio-visual communication are of particular interest to India. If an MRA is finalized it could further negotiations for trade in services substantially. Japan's 15%with holding tax is another major disincentive for Indian professionals.

INDIA JAPAN ECONOMIC ENGAGEMENTS:

- The Japan government and the Asian development bank have committed \$110 billion of infrastructure funding over the next five years.
- When announcing the project Abe emphasized that in order to make innovations extend to every corner of Asia, we no longer want a cheap but shoddy approach a stamen widely read as a critique of the Asian infrastructure investment bank.
- B&R on the other hands has multiple sources of funding that may total around \$1 trillion including the Silk Road funding potential the Asian infrastructure investment bank.
- Seeking the synergy between India's act east policy and Japan strengthen reliable sustainable and resilient infrastructures that augment connectivity within India and other countries in the region.
- The Japan international cooperation agency the official board that coordinates ODA is currently conducting feasibility studies on a series of joint projects within India's counterparts.
- India has asked to Japanese support to build approximately 1200 km of road in the hill terrains of 6 northeastern Indian states
- Among the projects selected two highways have priority status the aizawal-tuipang road on national highway 54 in Mizoram and the tura-dalu road on national highway 51 in Meghalaya.
- Japan has pledged an ODA loan of more than 96 billion yen for both highways at minimal interest rates
- The islands provide the Indian navy with significant access to the Malacca strait a key and strategic commercial route. popularly referred to as India's unsinkable aircraft carrier these islands allow Delhi to expand its maritime influence in the region
- Many of Japan's upcoming infrastructure projects in India are focused on developing and connecting northeast India with Southeast Asia.

INDIA-JAPAN TRADE:

The global economic downturn, on Indo-Japanese investment relations would be appropriate and relevant to highlight the problems faced by the two countries and to suggest measures to boost trade and investment between

them. For instance, several industries in Japan are now in the sunset phase because the current international economic environment has rendered them non-competitive. Exports from the manufacturing sector in Japan have declined in recent years. Such industries could survive if they were relocated and India is a first-class option. Consumer durables and food processing industries, for instance, could be relocated to India where skilled labour is available at a reasonable cost. Such industries will not only be able to take advantage of India's huge domestic market but could also use India as a base to export to other countries, besides catering to Japan's own domestic market. For many countries in the region, enhanced trade and investment relations between Japan and India would act as a counter balance to the growing influence of China. Stronger economic ties with Japan would also help India establish its presence in East Asia and get market access for its exports through Japan's bilateral agreements with other countries in the region.

During Prime Minister Modi's visit to Japan in September 2014, two leaders agreed to set a common goal of doubling Japan's direct investment and the number of Japanese companies in India by 2019, in order to build a win-win relationship through synergies between Modinomics and Abenomics. Prime Minister Abe intended to make an effort to realize 3.5 trillion yen of public and private investment and financing, including Official Development Assistance (ODA), to India over the coming five years. Japan expects India to improve the business environment, including the easing of regulations and the stabilization of the system. India established the "Japan Plus" office in the Ministry of Commerce and Industry in October 2014 as a "one-stop" location for resolving problems faced by Japanese companies. Japan and India agreed to set up 11 candidates of Japanese industrial townships around DMIC and CBIC areas in April 2015. Prime Minister Abe requested India's early decision on introducing special incentive packages in Japanese industrial townships in December 2015 and November 2016.

India decided to introduce the Shinkansen system in December 2015, when Prime Minister Abe visited India. The Japan's Shinkansen system is in a highest class of High-Speed Railway systems around the world in terms of its safety and accuracy. Japan and India confirmed that the General Consultant would start its work in December 2016, the construction work would begin in 2018, and the railway's operation would commence in 2023. India has been the largest recipient of Japanese ODA Loan for the past decades. Delhi Metro is one of the most successful examples of Japanese cooperation through the utilization of ODA. Japan will cooperate on supporting strategic connectivity linking South Asia to Southeast Asia through the synergy between "Act East" policy and "Partnership for Quality Infrastructure." In terms of human resource development in the manufacturing sector in India, Japan announced its cooperation of training 30,000 Indian people over next 10 years in the Japan-India Institute for Manufacturing (JIM), providing Japanese style manufacturing skills and practices, in an effort

to enhance India's manufacturing industry base and contribute to “Make in India” and “Skill India” Initiatives. JIM and the Japanese Endowed Courses (JEC) in engineering colleges will be designated by Japanese companies in India, and this is a good example of cooperation between the public and private sectors. In summer 2017, the first four JIMs started in the States of Gujarat, Karnataka, Rajasthan and Tamil Nadu, and the first JEC was established in the State of Andhra Pradesh. Those institutes are also expected to give more Indian students the ambition to study the Japanese language.

As a result of these detailed deliberations and studies, the Joint Study Group has concluded that there is a huge untapped potential to further develop and diversify the economic engagement between India and Japan. With the objective of bringing about a comprehensive expansion of bilateral economic and commercial relations, the Joint Study Group is making a series of recommendations, covering trade in goods, trade in services, investment flows, role of Japanese ODA in promoting economic partnership, and other areas of economic cooperation. The Group is also recommending that India and Japan launch inter-governmental negotiations to develop an Economic Partnership Agreement or Comprehensive Economic Partnership Agreement, within a reasonable period of time. Indeed, Japan is already implementing the Programme for the Promotion of Foreign Direct Investment in Japan, including the establishment of a one-stop consolidated business consultation service point (Invest Japan) and intends to support further investment from India to Japan. As a result, an increasing number of Indian companies are now exploring opportunities to invest in Japan. Around 70 Indian IT companies have already established their offices in Japan. The IT market in Japan is the second largest with a value of \$100 billion in 2006-07. Japan provides the ideal investment platform for Indian companies to get access to other new Asian markets.

NEW ERA IN INDIA-JAPAN RELATIONS:

Prime Minister Narendra Modi's visit to Tokyo will go down in history for opening up a special partnership chapter in bilateral relations. While for nearly a decade, both sides have intensified discussion on a strategic partnership, the regional context and the personal ties between Modi and Japanese Prime Minister Shinzo Abe to a large extent contributed to this dawn of a new era in bilateral relations.

- (i) The superlatives used by both leaders at Tokyo suggest to injecting new enthusiasm in bilateral relations at the national, regional and global levels. For instance, both in the joint declaration and at the press interaction, Modi stated that No country has done more for modernizing India's infrastructure than Japan. He suggested that Japan is the closest and most reliable partner for India and that No relationship in

India commands the level of public consensus as our relations with Japan does. He also stated that relations with Japan are his highest priority.

(ii) As if to acknowledge Abe's speech to the Indian Parliament in August 2007 on the arc of freedom and prosperity, the joint declaration of the two PMs announced strengthening democracy and shapes the course of their countries and the character of this region and the world in this century. While we have to see the ground level cooperation between the two in promoting democracy at the Asian regional and global levels, this is the first time that India has come out of its South Asian neighborhood in terms of this political initiative. Modi stated that Japan is a vital partner for India's transformation, but also for the 'two peace-loving and democratic' countries playing an influential role in shaping the future of Asia and the world.

(iii) Both decided to upgrade defense and maritime cooperation commitment to maritime security, freedom of navigation and over flight of civil aviation safety, unimpeded lawful commerce, and peaceful settlement of disputes in accordance with international law. In the light of the recent contest over the air identification zone and incorporation of disputed islands in the ambit of the territorial sea in the East and South China Sea, the above declaration provides opportunities for India and Japan to work together in coming years.

(iv) India and Japan declared that intensify cooperation in the United Nations reform and restructuring. The earlier bid by the G-4 countries India, Japan, Germany and Brazil faced opposition from regional powers and China. In addition, as global commons, viz., maritime, cyber and space have come under stress recently, India and Japan declared that they would cooperate on these issues.

(v) One of the majors takes always from this visit is in the economic field. While the much-debated civil nuclear agreement and US-2 amphibian aircraft sale have to wait for further negotiations between the two officials, the high-speed railways, infrastructure projects and manufacturing sector have received much attention during this visit.

The Japanese prime minister has committed \$35 billion in public and private investment and financing for the next five years. The total Japanese investment in India so far is about \$12 billion. Specifically in the current slogan of 'make in India', Japan's electronics, foundries, industrial townships, projects in health, clean energy, etc would be invited in the short term. Third country markets would also be explored. Sixthly, against the background of the phased withdrawal of Western-led forces from Afghanistan, India and Japan were not only critical of external interference in that country, but also for the elimination of terrorist safe havens and infrastructure. This is

very much forthcoming for Indian diplomacy, although the joint declaration also had some good news for the Japanese side in being critical of the North Korean reluctance to participate and abide by the six party talks on denuclearization and on the abductions issue.

CONCLUSION:

India-Japan Comprehensive Economic Partnership Agreement (CEPA) needs to be expedited to tap the huge potential that exists for further development, since both bilateral trade and investment are below potential considering the economic size of the two countries. Trade and investment values are also low in comparison to other major economies. Trade and investment flows from Japan to India are only 4 per cent of the volume of trade and investment from Japan to China. As highlighted in the 2011 survey conducted by JBIC, the flow of investment in recent years from Japan is still not satisfactory despite India potential as an investment destination. There exist tremendous investment opportunities in areas like infrastructure, manufacturing and services. Japan's technology and investment in the infrastructure sector can help bridge the supply gap in India infrastructure sector. Besides, Japan IT hardware can complement India strength in software while, India edge in pharmaceutical, biotechnology, and auto components industry can complement Japanese proficiency in heavy engineering, automobiles, machinery and chemical industry. India can also benefit from the export of agricultural products since Japan is a huge importer of food. The Japanese investment and technology could also play an important role in promoting SME clusters in the country. The realizing the importance of promoting FDI in the country, the Indian government is introducing reform and liberalization measures. At present, more than 200 of the Fortune 500 companies from the US, the UK, Germany, France, Japan, Netherlands, South Korea, Switzerland, Canada and Sweden are present in India. India provides a favorable investment climate to these companies, which include freedom of entry and exit, investment location, choice of technology, import and export etc. Now India needs to do is disseminate information on investment opportunities, identify new areas of collaboration and co-operation, ease procedural hassles and remove delays to boost Japanese investment in India.

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