

# India's Trade Opportunities and Economic Co-operation for India with Japan

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**ABSTRACT**

Since 1952, Japan and India have maintained diplomatic relations and enjoyed cordial relations based on trade and economic and technical cooperation. After the WW II, the focus of Japan's economic relations with India switched from the prewar import of cotton to the import of iron ore. Relations developed steadily as Japan's imports of ore and exports of manufactured products increased. Total trade between the two countries crossed US\$10 billion in 2007-2008, adding foreign direct investment from Japan to India from April 2000 to July 2008 was US\$2.2 billion. Japan ranks third in foreign technology transfer approvals, trailing only the United States and Germany. A total of 871 such technology collaborations between India and Japan were approved from August 1991 to June 2008. "These figures are not very impressive when seen in terms of India's share in Japan's total global trade and investment" On the other hand, there has been a notable increase in Japan's official development assistance (ODA) to India. India has been the largest recipient of Japan's yen loans since 2003. In August 2008, Japan pledged to extend Japanese ODA loans to five projects. Given that the issue of 'underdeveloped infrastructure' comes up repeatedly in Japanese perspectives on the business environment in India, the recent ODA disbursements are a strong signal of growing Japanese economic focus on India." Japan has agreed to provide US\$4.5 billion for the first phase of the Delhi-Mumbai Industrial Corridor, and that five Japanese companies already have decided to set up industrial bases along the corridor. India and Japan are also in the midst of negotiations for a comprehensive economic partnership agreement. Over 80% of Japanese companies in India are profitable, and more than 90% have expansion plans.

**1. INTRODUCTION**

Many centuries ago, India and Japan had begun exchange between them, when Buddhism was introduced to Japan via the Korean Peninsula. However, Direct exchange, began only in the Meiji era (1868-1912), when Japan started with its process of modernization. From then on, bilateral relations developed around Japanese purchases of cotton. India's friendship with Japan after the war helped a great deal when Japan returned to the international arena.

Since 1952, Japan and India have maintained diplomatic relations and enjoyed cordial relations based on trade and economic and technical cooperation. After the WW II, the focus of Japan's economic relations with India switched from the prewar import of cotton to the import of iron ore. Relations developed steadily as Japan's imports of ore and exports of manufactured products increased. Following Japanese Prime Minister

Nobusuke Kishi's visit to India in 1957, yen (loan) to India began in 1958, as the first loan aid extended by Japan. Japan and India have traditionally enjoyed cordial and friendly relations and the feelings of Indian people towards Japan have been good. The number of Japanese nationals residing in India was 2,050 (Oct., 1999) while the number of Indian nationals residing in Japan: 9,067 (Dec., 1999) is an indicator of cooperation between the two nations. Bilateral relations between two countries faced delicate situation after India conducted underground nuclear tests in May 1998. Japanese investors feel that availability of skilled manpower is a major advantage enjoyed by India in attracting foreign investment into India but at the same time a healthy market growth is also equally important. The sectors that attract Japanese investment include transportation (28 percent); telecommunications (18%), fuel (13.5%), chemicals (12.17 percent) and trading (6 %).

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## 2. COOPERATION BETWEEN JAPAN AND INDIA

### i) Overseas Development Assistance

**(ODA):** Japan's Official Development Assistance (ODA) has played an important role in India's infrastructure development and technological enhancement. Japan is India's largest bilateral donor. Delhi Metro is a "best practice" project which was assessed highly for introduction of a system allowing smooth and safe implementation of the project. This project symbolizes Japan-India friendship. It is desirable that similar high visibility projects are implemented in the days to come. On the other hand, unlike in East Asian countries, there are few investments by Japanese companies to date in infrastructure development. Thus, Japan could attach importance to improvement of the investment climate through infrastructure enhancement by ODA.

**ii) India-Japan CEPA Negotiations:** 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 (or protocols) for investment facilitation between the two countries.

**iii) Clean Development Mechanism (CDM):** The first Clean Development Mechanism (CDM) project that Japan registered with the United Nations (UN) as part of its efforts to reduce greenhouse gas emissions was a joint project conducted in India. It is hoped that India and Japan will initiate the second and third CDM joint projects.

**iv) Japan Exchange and Teaching (JET) Programme:** The language barrier is an obstacle to strengthening economic relations

between Japan and India. When Prime Minister Koizumi visited India in 2005, the Government of India announced a plan to increase the number of people learning Japanese to 30,000 in five years and decided to adopt Japanese as an additional foreign language elective in secondary education from the next fiscal year. The Government of Japan intends to strongly support this plan through the Japan Foundation programs and by dispatching Japan Overseas Cooperation Volunteers (JOCV) to teach Japanese. It is expected that this plan will contribute to increase in the activities carried out by Japanese companies operating in India and help Indian companies enter the Japanese market. It is also desirable to see an increase in the number of Japanese and Indian students studying in each other's countries. In this regard, it is observed that in 2004 there were 410 students from India and 80,592 students from China in Japan. The Government of Japan has substantially increased the number of Indian participants in the Japan Exchange and Teaching (JET) Programme with the aim of strengthening English language education in Japan and promoting internationalization of the local communities. It is expected that India will cooperate by sending many high-quality Indian teachers of English to Japan.

**v) Signed the joint statement for energy cooperation:** Japan and India are major energy consuming nations in Asia, and therefore, securing a stable supply of energy sources, promotion of energy-saving, and improvement of energy efficiency are critical policy agendas that are directly linked to the economic development of both countries. Minister of Economy, Trade and Industry of Japan and Minister of Petroleum and Natural Gas of India have already agreed to comprehensive energy cooperation, and signed the joint statement.

**vi) Promotion the tourism cooperation between Japan and India:** As the birth place of Buddhism, India is home to Buddhist ruins, with which Japanese people

are familiar, and also many other famous world heritage sites. For this reason, India's tourism development is a sector where the potential of Japan-India cooperation is high. It is expected that this assistance will serve to promote tourism cooperation between Japan and India and lead to the revival of the tourism industry in both the countries.

**vii) Science and Technology**

**Cooperation:** Under the Science and Technology Initiative noted in the Eight-fold Initiative for Strengthening the Japan-India Global Partnership, the 7th meeting of the Japan-India Joint Committee on Science and Technology Cooperation was held in November 2005 and the two countries decided to seek possible cooperation in areas such as biotechnology, nanotechnology, alternative energy sources and robotics.

**viii) Japan's Active Engagement in Business Cooperation with India:**

Japanese business circle is experiencing an "Indian Boom", with a high expectation for business opportunities here and activating further investments in the Indian market. The surveys of Japanese manufacturing companies operating abroad conducted by Japan External Trade Organization (JETRO) and Japan Bank for International Cooperation (JBIC) indicate that India is the second most prospective investment destination abroad next to China for the Japanese business circle. According to the information provided by various Japanese establishments in India (Consulate offices, Japanese Chambers of Commerce and Industry in India, JETRO Bangalore), there are 475 Japanese business establishments operating in India.

**3. JAPANESE JOINT VENTURES IN INDIA**

- Japanese Joint Ventures in India are contributing to India's export to third countries. Examples include Maruti Suzuki and Honda Group (Hero Honda and HMSI).
- There has been a qualitative change in the

strategies of Japanese companies, and that some leading Japanese companies have started considering India as a future export hub of their products. These trends are expected to facilitate India's export in the future.

The numbers of Japanese business establishments from Aug 2003 to Feb 2007 are shown in table - 1 and figure-1.

Further, Japanese companies have

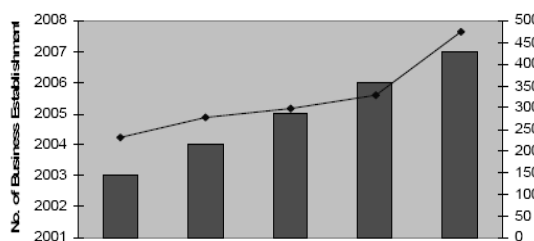
**Table-1**  
**The numbers of Japanese business establishments from Aug 2003 to Feb 2007**

Years	Business establishments
Aug 2003	231
Jul 2004	276
Apr 2005	298
Jan 2006m	328
Feb 2007	475

Sources: Chambers of Commerce and Industry in India.

(Figure-1)

**No of Japanese Business Establishment in India 2003-2007**



shown a keen interest in investing in joint ventures with Indian companies. The top FDI inflows received from Japan through Indian

Companies from January 2000 to November 2007 include M/s. Maruti Udyog, Escorts, Yamaha Motor Ltd., Yamaha Motor India Pvt. Ltd., Sanyo BPL Pvt. Ltd., Yamaha Motors Escorts Ltd., Welspun Products, Telco Constructions Equipment Co., Birla NGK Insulator Pvt. Ltd., Toyota Kirloskar Motors Ltd. etc. (See table-2 below for FDI inflows received from Japan through Indian companies.)

These trends indicate that there has been a qualitative change of the strategies of Japanese companies, and that some leading Japanese companies have started considering

(Table-2)  
FDI inflows received from Japan through Indian Companies  
(From January 2000 to November 2007)

Nos.	Name of the Indian company	Name of Foreign Collaborator	Sector	Amount of FDI inflows (Amt. in Millions)	
				Rupees	\$
1.	Maruti Udyog Ltd.	Suzuki Motor Co. Ltd.	Transportation Industry (Passenger Cars)	10000	208.3
2.	Escorts Yamaha Motor Ltd.	Yamaha	Transportation Industry	4000	88.9
3.	Maruti Udyog Ltd.	Suzuki Motor Co. Ltd.	Transportation Industry (Passenger Cars)	3990	83.1
4.	Yamaha Motor India Pvt. Ltd.	Yamaha	Automobile Industry	3000	65.2
5.	Sanyo BPL Pvt. Ltd.	Sanyo Electric Co. Ltd.	Telecommunications	2269	51.0
6.	Yamaha Motor Escorts India Pvt. Ltd.	-	Transportation Industry	2152	47.8
7.	Telco Constructions Equipment co	Hitachi Constructions Machinery Co. Ltd.	Mfg./Sale Construction Equipment's / Earth Moving Machinery	2043	44.7
8.	Birla NGK Insulators Pvt. Ltd.	NGK Insulators Ltd.	Ceramics	1193	25.9
9.	Welspun Productions Pvt. Ltd.	Dunelm Investment Mauritius P. Ltd.	Textiles (including dyed, printed)	1183	27.2
10.	Exsorts Yamoaha Motor Ltd	Yamaha	Misc. Industries	1172	27.3

Source: [www.dipp.nic.in](http://www.dipp.nic.in)

India as a future export hub of their products. These trends are expected to facilitate export from India furthermore in the future.

#### 4. JAPAN'S FOREIGN DIRECT INVESTMENT (FDI) TO INDIA

According to the data released by the Ministry of Finance of Japan, Japan's FDI in 2006 was 59.8 billion yen (US\$ 515.5 million), which has doubled from 29.8 billion yen (US\$254.7 million) in 2005. FDI inflows in 2006 are the largest annual FDI inflows from Japan to India (the last peak was US\$ 488.4 million in 1997).

i) **Japan's Foreign Direct Investment (FDI) to India (Japan's FDI to India doubled during 2005 to 2006):** According to the data released by the Ministry of Finance of Japan, Japan's FDI in 2006 was 59.8 billion yen (US\$ 515.5 million), which

- has doubled from 29.8 billion yen
- (US\$254.7 million) in 2005 (Figure 2) **FDI inflows in 2006 are the largest annual FDI inflows from Japan to India** (the last peak was US\$ 488.4 million in 1997).

- On the other hand, the data released by the Ministry of Commerce and Industry of India also shows the steady increase of Japan's FDI to India since 2003 (Table 1). The country-wise FDI statistics by the Ministry of Commerce and Industry of India includes only fresh investments; therefore the amount of FDI is far less than actual FDI amount including reinvestments and long-term borrowings from abroad. In addition to the amount of investment shown above, Japanese companies are also investing in India through their subsidiary companies in third countries, mostly those in ASEAN. According to SIA Newsletter published by



Figure 2: Net Inflows of FDI from Japan to India



Source: ministry of finance Japan.

Table-3: Year-wise FDI from Japan to India

Year	Japan's FDI to India (US\$ million)
2003	94.4
2004	116.0
2005	168.0

(Source: Ministry of Commerce and Industry, India)

Table-4, Major FDI projects

Maruti-Suzuki <sup>3</sup>	US\$ 2564 million (¥ 300 billion)
Toyota Motor Corporation	US\$ 385 million (¥ 45.0 billion)
MCC PTA	US\$ 364 million (¥ 42.5 billion)
Nissan Motor	US\$ 231 million (¥ 27.0 billion)
Honda Sael Cars	US\$ 175 million (¥ 20.5 billion)
Asahi India Glass	US\$ 111 million (¥ 13.0 billion)

the Ministry of Commerce & Industry of India, during the time between April 2006 and November 2006, Japan invested about US\$ 5.15 million in India through Japanese subsidiary companies in Singapore.

**Japan's FDI to India will amount to around US\$ 5.5 billion over 5 years:** Only by totaling 27 FDI projects reported in Japanese media, Japan's FDI to India will amount to around US\$ 5.5 billion over 5 years from 2006 to 2010. The major FDI projects are as follows in (table-3)

## 5. BILATERAL TRADE BETWEEN INDIA AND JAPAN

In 2007-08, Japan ranked third amongst India's trading partners. Bilateral trade between Japan and India has been rising steadily since 2003. From \$4.37 billion in 2003-04, it rose to \$6.5 billion in 2005-06,

\$7.45 billion in 2006-07 and to \$10.17 billion in 2007-08. The growth rate during this five-year period was 35.56 per cent.

The Confederation of Indian Industry (CII) estimates that the trade volume could touch \$15 billion by 2010 if issues like trade facilitation and non-tariff barriers were addressed.

### i) Exports

Exports from India to Japan touched \$3.85 billion in 2007-08, an increase of 34.73 per cent over the \$2.86 billion registered in 2006-07. In the first quarter of the Indian fiscal year 2008, India exported goods worth \$786.10 million. India's exports to Japan consist largely of raw materials, minerals such as raw iron ore, agricultural products, marine products, pearls, semi-precious stones and imitation jewellery. In 2007-08, Japan imported \$1276.24 million worth of minerals from India, an increase of 185.88 per cent from 2006-07. This was followed by \$451 million worth of natural pearls, semi-precious stones and imitation jewellery. Other items exported to Japan include agricultural products, handicrafts, cotton, carpets, leather garments and goods, fresh fruits/juices and dried fruits, spices and herbs. Japan is also the largest importer of Indian shrimps.

In an attempt to boost exports of organic products to Japan, the Agricultural and Processed Food Products Export

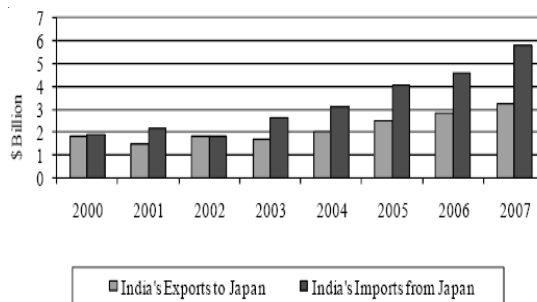
Development Authority (APEDA) has suggested that the Japanese government accord equal status to Indian certification agencies. The step will go a long way in reducing the cost of these products in the Japanese market. At present, the prices of products exported to Japan are significantly higher than those exported to other countries. This is because the cost of certification by Japanese agencies is much higher than that charged by Indian agencies. Once Indian agencies get equivalence of standards and certification with their Japanese counterparts, the former, accredited by APEDA, can certify organic products. Organic products that are exported by India include basmati rice, honey, spices, tea, garments and some dry fruits.

**ii) Imports**

According to data provided by the Indian commerce ministry, India's imports from Japan were worth \$6.32 billion in 2007-08, up by 37.70 per cent from the 2006-07 level of \$4.59 billion. For the period

**The figure below presents India's trade with Japan from 2000-2007.**

Figure 3: India's Trade with Japan: 2000-2007 (\$ billion)



**Trade and Production Linkage (Table-5)**

**Annual trade growth in India and Japan**

	India (%)		Japan (%)	
	1995-2000	2001-2005	1995-2000	2001-2005
Exports	10.0	15.5	5.5	5.9
Imports	7.0	18.5	5.4	3.5

**Table 2. Share of export & import in GDP (%)**

	India (%)		Japan (%)	
	1995	2005	1995	2005
Exports	11.0	20.5	9.2	13.4
Imports	12.2	24.2	7.8	11.4

April to June 2008, imports from Japan wereworth \$2.196 billion. India's imports from Japan have been increasing because of therising import volumes of commodities like heavy machinery, iron and steel, mineral fuels and mineral oils, surgical equipment, organic chemicals, plastic, rubber etc. India imported \$2.17 billion worth of heavy machinery from Japan in 2007-08. This was followed by \$814 million worth of electrical machinery and equipment.

**6. FUTURE PROSPECTS**

Japan's FDI has been concentrated largely in two major sectors: automotive industry (60 per cent of the total) and petrochemicals (20 per cent) during 2000-2007. However, new areas of investment are emerging such as other manufacturing industries, pharmaceuticals, food processing, IT software and textiles. It is also noteworthy that many Japanese SMEs (small and medium scale enterprises) are demonstrating a keen interest in the Indian market. In recent times, Japan has been eclipsed by South Korea in terms of establishing its presence in the Indian market. South Korean consumer brands have moved aggressively into India.

Their brands have very high recognition value among Indian consumers. On the trade front, India's trade with both China and South Korea is booming and grew around 40 per cent with both countries in 2007-08. China's trade with India is nearly three times as much as India's trade with Japan while Korea's trade is almost at the same level. Unless Japanese investors become more proactive, they are likely to miss out on the opportunities offered in India's rapidly growing economy. An economically resurgent India offers a variety of investment opportunities, both in traditional and new sectors, in labour-intensive and knowledge-based industries. Japan and India could collaborate in the bio-technology, nano technology, information technology, automobile, aerospace, textiles, leather, marine product and other industries. India's fast expanding economy will create a large demand for energy. There are many

opportunities for collaboration between Indian and Japanese companies in the area of energy efficient and environment friendly technologies.

- i) Both sides confirmed that the Economic Partnership Agreement (EPA) negotiations would be accelerated. Prime Minister Singh expressed his hope that an agreement would be reached by the next annual summit meeting.
- ii) Both sides committed to the early realization of the entire Western corridor of the Dedicated Freight Corridor (DFC) project.
- iii) The Project Development Fund (PDF) for the Delhi-Mumbai Industrial Corridor (DMIC) project was jointly established.
- iv) Both sides confirmed that the Indian Institute of Technology Hyderabad (IITH) would become the model of Japan-India cooperation in the field of academic exchanges.
- v) Both sides affirmed that bilateral cooperation on energy conservation and other fields will be promoted through the Japan-India Energy Dialogue.

Total trade between the two countries crossed US\$10 billion in 2007-2008, adding

foreign direct investment from Japan to India from April 2000 to July 2008 was US\$2.2 billion. Japan ranks third in foreign technology transfer approvals, trailing only the United States and Germany. A total of 871 such technology collaborations between India and Japan were approved from August 1991 to June 2008.

**Politics and Security :** The two prime ministers reiterated the importance of continuing the annual summit meetings, and Prime Minister Hatoyama invited Prime Minister Singh to Japan by the end of 2010.

**Climate Change :** The two prime ministers welcomed the Copenhagen Accord and affirmed their resolve to continue to closely cooperate between the two countries.

**Other Global Issues :** On the UN Security Council Reform, international finance and global economy, the Doha Development Round of the World Trade Organization (WTO) and counter-terrorism, the two ministers exchanged views and ensured cooperation between the two countries.

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