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India-Japan CEPA: A way forward

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Abstract
The strategic relationship between India and Japan has taken a new turn with the Comprehensive Economic Partnership Agreement (CEPA). This agreement is marked as a first Free Trade Agreement (FTA) negotiation of India with a developed economy. The main objective of this partnership agreement is to liberalise and simplify the trade in goods and services, promote business environment, and increase the opportunities in investment between India and Japan. This paper focuses on the bilateral gains and benefits of the CEPA and the challenges this partnership agreement faces while moving forward. It also looks into many important questions, such as how CEPA has performed, how it is working on its objectives, and to what extent both parties have profited.

Keywords: comprehensive economic partnership agreement (CEPA), free trae agreement (FTA), India-Japan, strategic partnership, regional comprehensive economic partnership (RCEP)

Introduction
There are mainly three pillars of Indian foreign policy Strategy; security, economic expansion and status, in order to get an ideal strategic autonomy, and Japan plays a very substantial part in all three mentioned aspects. Despite their geographical proximity, which aids trade and capital movement between the two economies, India-Japan economic engagement was not as strong as projected, particularly in the post-war period. The weak economic relationship between India and Japan was based on many internal and external influences which include India's decision to centralise its economy and Japan's decision to pursue a more liberalised economic system, putting the two Asian economies at odds. However, after India liberalised its economy in the 1990s, it was believed that trade between Japan, a significant commercial power, and a newly liberalised India would increase dramatically, but trade between two nations remained static, as did investment flows from Japan to India. Stagnation in bilateral trade and the flow of Japanese FDI was a subject of concern in India's policy circles because Japan was designated as an important source of both investment and technology when India began the liberalisation process (Dixit, 1996) [3].
In this backdrop, the governments of India and Japan formed a Joint Study Group comprised of diverse stakeholders, government officials, and academic experts to discover complementarities between the two nations and suggest methods to strengthen bilateral economic ties. After extensive debate, the Study Group concluded that there are many potentials between the two countries, which, if properly utilized, can result in a complimentary economic partnership (Das, 2014) [2].
And following this positive scenario, the Comprehensive Economic Partnership Agreement (CEPA) between India and Japan was ultimately reached at its final stage of agreement in October 2010 and signed on February 16, 2011, after nearly four years of discussions. The accord was expected to take India and Japan's strategic and global collaboration to a new level. According to the Japan's Foreign Ministry, by expanding cross-border flows of commodities, people, investment, and services, the India-Japan CEPA is intended to develop areas of potential mutual complementarity, deepen the bilateral economic relationship, and promote economic development. It is also anticipated to open up new economic opportunities, improve the competitiveness of both countries' private sectors, and foster greater collaboration between their private sectors, ranging from small and medium businesses to infrastructure-related businesses. The implementation of CEPA will reinforce the foundation for Japan and India's economic development by fostering greater collaboration in a variety of fields and using the two countries' respective competitive

advantages to boost both economies' development (Japan, 2010)

India-Japan CEPA: An Introduction

Based on the Joint Study Group's recommendations, India and Japan concluded their negotiations and the Comprehensive Economic Partnership Pact (CEPA) between India and Japan went into effect on August 1, 2011, and it is the most comprehensive free trade agreement India has ever signed. Also, this is the third comprehensive economic partnership agreement signed by India after India-South Korea CEPA and India-Malaysia CEPA (Sharma, 2011) [13]. The India-Japan CEPA consists of agreed-upon measures on trade in commodities, services, and investment liberalisation, as well as an agreement to undertake cooperation in a number of designated areas. India has signed two free trade agreements with OECD economies: one with Japan and the other with the Republic of Korea. When compared to all the FTAs to which India has agreed, it is also the one with the broadest reach in terms of products and services. The CEPA between India and Japan was established on the basis of their economies' complementarities.

The CEPA, according to the JSG's documents, would likely to usher in a new era of relations between the two countries by "contributing to boosting trade and investment not just between the two parties but also within the region". The term 'region' appears to refer to East Asia and the formation of the ASEAN+3+3 (later termed RCEP) trading alliance, of which the two countries are significant members (Kawai, 2008) [7]. In this sense, the following are some of the key objectives defined by the CEPA countries:

a) To liberalize and facilitate trade in goods and services;
b) To expand investment opportunities and strengthen protection for investment and investment activities;
c) To ensure intellectual property protection;
d) To promote cooperation for effective competition law enforcement; and
e) To improve the business environment (Ministry of Commerce and Industry, 2011).

The CEPA addressed commodity and service trade, natural person mobility, investment, intellectual property rights, customs procedures, and other trade-related issues. The domains covered in the India-Japan CEPA were nearly identical to those identified by the Joint Study Group, which saw many complementarities and potentials in these fields between the two countries. In particular, the preamble of the CEPA specifies that the "bilateral relationship between India and Japan shall be expanded by building mutually beneficial economic partnership through liberalisation and facilitation of trade and investment". Furthermore, the CEPA states that economic collaboration will generate a larger and new market, improve the attractiveness and vibrancy of their markets, and help improve their manufacturing and service industries' efficiency and competitiveness (Ministry of Commerce and Industry, 2011).

Recent events and governmental measures in both countries have only served to strengthen this foundation. In the last ten years, the India-Japan collaboration has grown significantly, and many of the recognised complementarities are being taken advantage of. Apart from the implementation of CEPA as a vehicle for boosting trade and investment, major infrastructural projects such as the Delhi-Mumbai Dedicated Freight Corridor and the Delhi-Mumbai Industrial Corridor are in the works. Prime Ministerial meetings are now held once a year, and PM Modi's visit to Japan in 2014 saw the bilateral relationship elevated to the status of a "Special Strategic and Global Partnership," with PM Abe promising 3.5 trillion yen in public and private investments in India over a five-year period in the areas of next-generation infrastructure, connectivity, and transportation systems. The visit of Japanese PM Shinzo Abe to India in December 2015 solidified this, with the two leaders declaring a shared vision for partnership through 2025. A US$ 12 billion 'Make in India Special Finance Facility' for fostering Japanese investment in India, as well as another US$ 12 billion soft credit for the Shinkansen bullet train project, are among the new measures unveiled (Ministry of External Affairs, 2015).

State of economy under CEPA

Since the JSG report in 2006, as well as since the start of CEPA implementation in 2011, there have been major changes in both economies.

Tariff reduction obligations

On 1 August 2011, India reduced prices on 18.37 percent of all tariff lines at the eight-digit level to zero under the CEPA with Japan (Table 1) and it also promised to reduce charges on 4.51 percent of tariff lines to zero in 2016, and 63.45 percent to zero by 2021, in a staggered manner. Only 13.62 percent of tariff lines will remain unaffected by tariff liberalization (Ministry of Commerce and Industry, 2011).

Table 1: India's tariff reduction obligations, under CEPA

Staging Category	No. of Tariff Lines (8 Digit level of HS)	% Share of Total
A	2074	18.37
B10	7163	63.45
B5	509	4.51
B7	2	0.02
X	1538	13.62
Not specified	1i	0.01
Special case	2ii	0.02
Total	11289	100.0

Source: Ministry of Commerce & Industry, Government of India, 2011
URL: http://commerce.nic.in/trade/ijcepa_basic_agreement.pdf

The pledges made by Japan to reduce tariffs were made at the nine-digit level of the HS Classification, although the India-Japan CEPA agreement also contains obligations at the four, six, and nine-digit levels. After looking at all of the items at the nine-digit level, it was discovered that from August 2011 forward, 78.98% of tariff lines (category A) had immediate tariff removal (Ministry of Commerce and Industry, 2011).

Table 2: Japan's tariff obligations, under CEPA

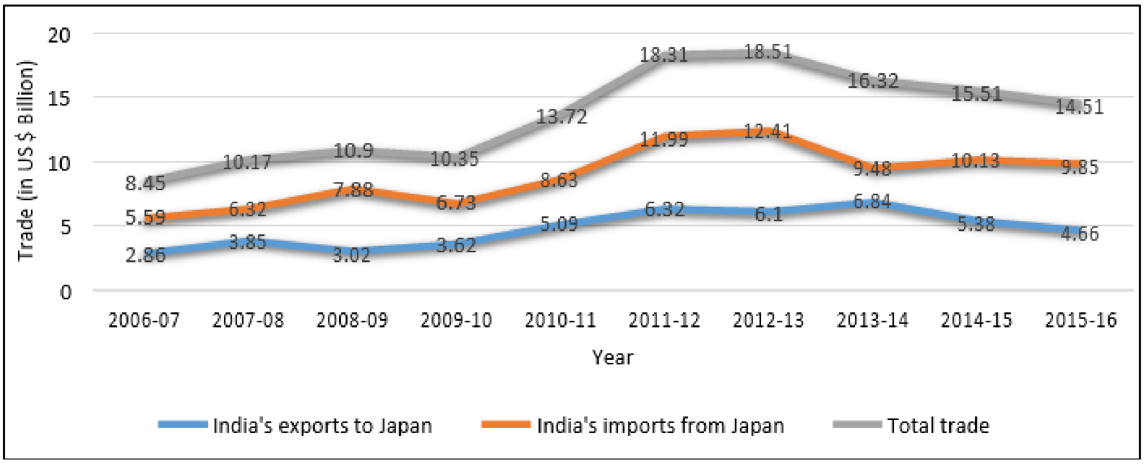
Tariff Liberalization Category	A	B10	B15	B7	X	Total
HS9 digit Tariff lines	7141	622	41	45	1192	9041
Percentage of total tariff lines	78.98	6.88	0.45	0.50	13.18	100.0

Source: Japan's tariff schedule, Japan customs
URL: http:// www.customs.go.jp/english/tariff/

Tariffs on another 6.88 percent of tariff lines (B 10 category) were to be reduced to zero in ten years with equal annual decreases. A smaller number of tariff lines were included in the B7 and B15 categories, which will be phased down over seven and fifteen years, respectively. There were additionally 1192 tariff lines (X category) on which no tariff reduction pledges were made, accounting for 13.18 percent of all tariff lines. These mostly included seafood, dairy, and other agricultural products, but they also included leather, footwear, timber, silk, and chemical products (Ministry of Commerce and Industry, 2011) [8].

Bilateral trade in goods

The CEPA has had the most favourable influence on India-Japan relations in the areas of trade and investment. The CEPA has undoubtedly increased bilateral trade, which was previously much below its potential. Trade in goods between the two nations was around US$ 13.72 billion in FY2010-11. The average of India's exports to Japan four years before CEPA compared to the same average four years after CEPA, shows a 57.83 percent rise. Japan's part of India's overall exports has remained around 2% for the majority of the time, both before and after CEPA, implying that India's exports have not increased significantly in absolute terms as a result of CEPA. Imports from Japan increased dramatically in the first two years after CEPA went into effect. In 2011-12, it increased by 39% to US$ 11.99 billion, then increased again to US$ 12.41 billion in 2012-13. However, they fell in the following years, reaching US$ 9.85 billion in 2015- 16 (Graph 1) (Ministry of Commerce and Industry, 2016) [9].



Source: Ministry of Commerce and Industry, Government of India
URL: https://tradestat.commerce.gov.in/eidb/ecntcomq.asp

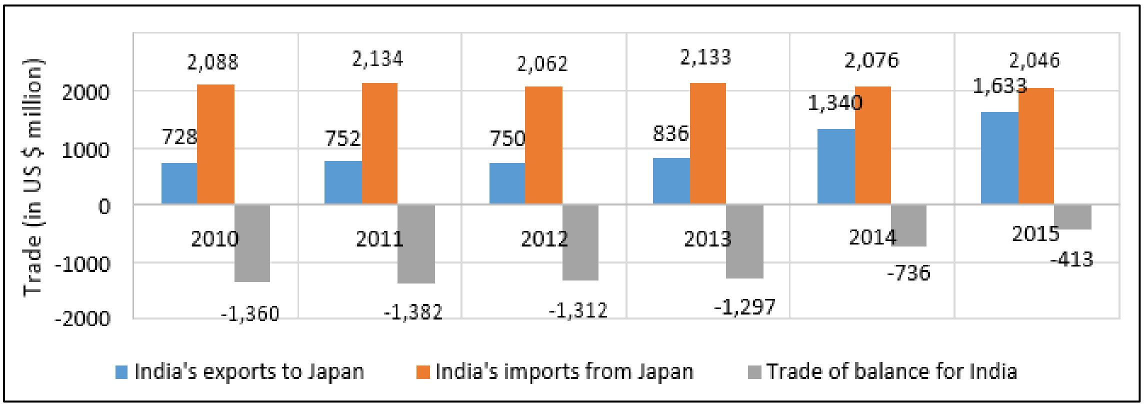
Graph 1: India-Japan bilateral trade in goods

Japan has continually benefited from the trade balance of goods between the two countries. However, the extent of India's bilateral trade imbalance has fluctuated greatly. There has been no consistent growing trend in either way, according to the data. While commerce increased dramatically in the first two years or so after CEPA went into effect, it has since declined, presumably due less to CEPA and more to other variables such as commodity price patterns, currency rate swings, and so on.

Bilateral trade in services

In 2013, India ranked sixth in the world in terms of service exports, with a total value of US$ 151 billion. In terms of imports, it ranked ninth with a total of US$ 125 billion in the same year, resulting in a US$ 26 billion surplus. In terms of exports, India had a 3.2 percent market share, while imports had a 2.8 percent market share. Japan, on the other hand, ranked seventh in the world in terms of exports in 2013, with US$ 145 billion and a 3.1% worldwide share. However, it is a net importer of services, with US$ 162 billion in global imports and a 3.7 percent share. As a result, the services account had a deficit of US$ 17 billion that year. Despite their global leadership in the import-export in services, India and Japan's bilateral trade has remained stagnant. Furthermore, because India's IT and computer services have yet to make a significant impact on the Japanese market, Japan has been able to benefit from a surplus. Both India and Japan agreed to liberalisation commitments under CEPA, some of which went beyond their WTO services discussions' revised offer.

According to the Bank of Japan statistics, in 2015, India's service imports from Japan were US$ 2,046 million. In the same year, India exported US$ 1,633 million in services to Japan. As a result, Japan recorded a US$ 413 million surplus for itself. However, patterns in bilateral trade over the last few years show that the surplus is shrinking (Graph 2) (JETRO, 2015) [5].

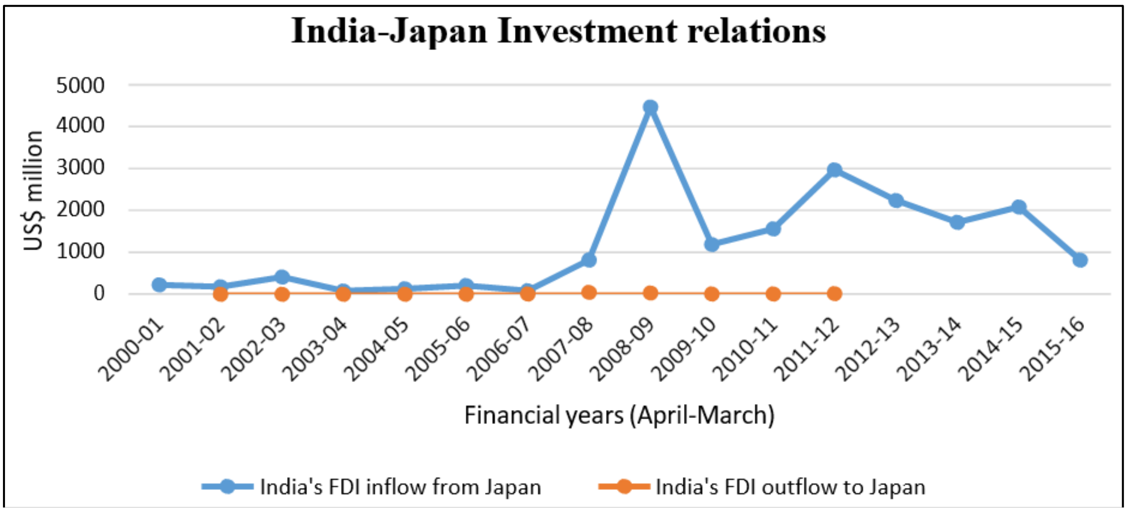


Source: Japanese Trade and Investment Statistics, JETRO
URL: https://www.jetro.go.jp/en/reports/statistics.html

Graph 2: India-Japan Bilateral trade in services

India-Japan investment relations under CEPA

Following the start of the CEPA negotiations, Daiichi Sankyo made a large investment in Ranbaxy, causing FDI inflows to skyrocket to US$ 4470 million in 2008-09. While there has not been a repeat to the same level in subsequent years (in fact, Daiichi Sankyo has subsequently withdrawn from this investment in 2015), there has been a clear upward tendency in comparison to the period before to 2008-09. In reality, Japan is currently India's fourth largest source of FDI inflow (Graph 3).



Source: Ministry of Commerce and Industry, government of India

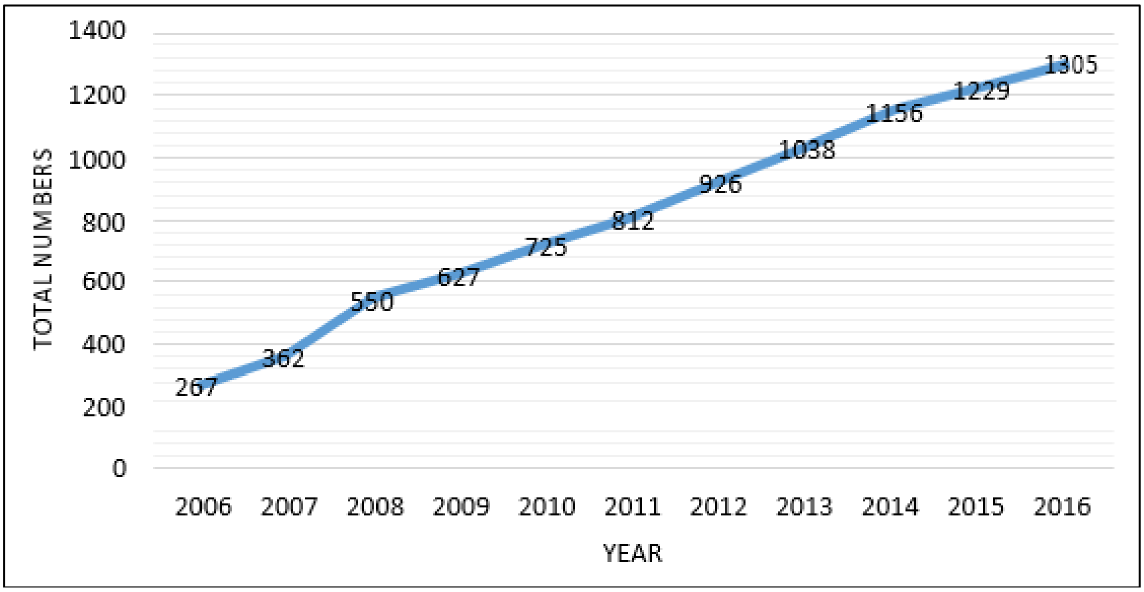
Graph 3: India-Japan FDI relations

Up until 2006-07, India's outward FDI to Japan was less than $1 million. In 2007-08, India's FDI to Japan increased slightly to US$ 42.05 million. In the fiscal year 2008-09, India made some investments in Japan, bringing the total FDI stock to US$ 74 million. Overall, however, Indian investment in Japan has been quite low, accounting for only 0.07 percent of India's total FDI abroad (see above Graph 3). On the investment front, India has pledged to maintain its current foreign investment policies. To our investment partner, the agreement represents the steadiness of our policy regime. Japanese investment is significant not only because of the resource flows it entails, but also because of the associated high technology and quality management techniques (Das, 2014) [2].

Japanese companies in India

According to Japan Bank of International Cooperation (JBIC) survey, the growing number of Japanese companies in India is quite good. Since the formation of a bilateral strategic agreement in 2006 between India and Japan, the number of Japanese companies has been steadily expanding. According to a 2016 data published by the Japanese embassy in India, there were 1305 of these companies. This is a positive trend, as there were only 267 Japanese firms in India in 2006. The signing of the CEPA, which provides numerous benefits to Japanese businesses, appears to have piqued Japanese interest in the Indian market, and as a result, Japanese businesses in India are expanding (Graph 4) (Japan E. o., 2016) [6].

CEPA has had a beneficial influence because Japanese companies rank India as the top most prospective investment location (for both medium- and long-term investment). Reforms aimed at improving the ease of doing business and developing a supportive infrastructure will aid in recruiting even more Japanese firms to invest in India. If the various Japanese industrial townships currently under construction and the industrial corridors that are taking shape become operational, Japanese investment in India might hit the roof.



Source: Embassy of Japan, India
URL: https://www.in.emb-japan.go.jp/PDF/2020_co_list_en_pr.pdf

Prospects of India-Japan CEPA

The economies of Japan and India are the second and third largest in Asia, respectively. While CEPA was supposed to increase trade and investment between the two countries, the outcomes have been far less impressive. Their economic participation, particularly in trade, is still considerably below what it could be. The market shares haven't changed significantly. India's percentage of Japanese imports has been around 2.3 percent, while Japan's share of Indian imports has been around 0.80 percent. Furthermore, as a result of the CEPA, Japan's trade balance has improved. The trade deficit between India and Japan has widened to US$ 8 billion. Prior to the CEPA's implementation in 2011, the trade imbalance between the two countries was estimated to be over US$ 3 billion. The widening trade deficit is causing concern in India's political and strategy areas. According to some critics, inflows of Indian commodities into Japan are limited due to several hurdles established by Japan, despite the fact that investment flows from Japan and an increasing number of Japanese corporations establishing industries in India are positive signals. However, the two countries' leaders envisioned a comprehensive and complementary economic connection, which has yet to be realised.

However, the use of CEPA for goods market is progressively rising in both directions. India has increased its exports in the seafood, leather, pharmaceutical, dyes and pigments, garments and a few other sectors as a result of CEPA concessions. CEPA concessions, on the other hand, are irrelevant for around 75 percent of India's exports because duties on them are nil in Japan anyway. In the case of Japan, the country's increased exports of certain basic steel components have alarmed India's indigenous steel sector. Since 2016, the duty on such steel articles has been nil. In January 2016, India's government imposed a six-month Minimum Import Price (MIP) on a variety of iron and steel products for all countries. It may be necessary for India to notify particular safeguard measures so that they can be used in the event of substantial increases in imports of any commodity from Japan aided by CEPA concessions that cause serious harm to Indian industries domestically.

If trade, investment, and cooperation are all used wisely to support and push one another, CEPA might play a key role. A pull factor might be the enormous trade-related infrastructure that Japan is working on with India, notably through a corridor strategy with numerous industrial townships. Both countries must collaborate to build supply chain networks and increase the number of Japanese companies in India (now 1305), including SMEs (Japan E. o., 2016) [6].

Conclusion

According to the Government of India's Foreign Trade Policy Statement for 2015-20, the planned gains from the CEPA with Japan have not materialised to the level expected. The goal is to help our exporters overcome language barriers, stringent product requirements, and convoluted business processes. Given that Japan is already one of India's top investment partners, the Statement predicts that a number of existing measures would likely enhance Japanese investment in India, and it has urged Indian investors to participate in the investment- driven trade process. More domestic outreach initiatives are critical, not only to improve stakeholders' comprehension of CEPA and its numerous sections, but also to raise awareness of cultural aspects, business practises, and local regulatory requirements that are specific to Japan. The CEPA framework includes provisions for cooperation in specific sectors for bilateral cooperation. It's critical that they are used to their full potential. Both India and Japan will have to take action in order to achieve these goals.

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16. January 1, 2014; (vi) 8.75 percent as of January 1, 2015; (vii) 7.5 percent as of January 1, 2016; (viii) 6.88 percent as of January 1, 2017.