
UNIT 15 JAPAN

Structure

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15.0 OBJECTIVES

After studying this Unit, you should be able to:

- Describe the basic economic structure of Japan.
- Analyse the trends in trade of India with Japan.
- Discuss the prospects of India- Japan trade.

15.1 INTRODUCTION

Japan is an island country in East Asia. It has a collection over 6000 islands. There are five main islands- Hokkaido, Honshu, Kyushu, Shikoku and Okinawa. It is the fourth largest island country with the 6th longest coastline and 8th largest Exclusive Economic Zone in the world. Two-thirds of the land mass is set-in the mountains with forests. Most of the population lives in urban areas that are highly densely populated. It is prone to having

frequent earthquakes, tsunami and stratovolcanoes. Typhoons are also quite common. But the population is extremely high, and the people are very enterprising, hardworking, and cultured. In this Unit, you will learn the India Japan relationship, economic characteristics of Japan, India's trade with Japan, trade composition and trade prospects. You will be further acquainted with opportunities and challenges.

15.2 INDIA AND JAPAN RELATIONSHIP

Exchange between Japan and India is said to have begun in the 6th century when Buddhism was introduced in Japan. Indian culture, filtered through Buddhism, has had a great impact on Japanese culture, serving as the foundation of Japanese people's sense of closeness to India.

The friendship between India and Japan has a long history rooted in spiritual like-mindedness and strong cultural and civilization ties dating back to the visit of Indian monk Bodhisena in 752 AD. In contemporary times, prominent Indians associated with Japan were Swami Vivekananda, Nobel laureate Rabindranath Tagore, entrepreneur JRD Tata, freedom fighter Netaji Subhash Chandra Bose and Judge Radha Binod Pal.

In recent years, economic relationship between Japan and India has steadily evolved and deepened. The volume of trade between the two countries has amplified. India was the 18th largest trading partner for Japan, and Japan was the 13th largest trading partner for India in 2021. Also, direct investment from Japan to India has significantly improved, and Japan was the 5th largest investor for India in FY2021. Japanese private-sector's interest in India is rising, such that, about 1,439 Japanese companies had branches in India in 2021. India's rapidly growing economy, its large and expanding market, its pool and nature of resources, especially the human resources, are viewed as avenues of viable economic opportunities by the Japanese corporate sector. This has acted as a crucial driving force behind closer bilateral relations.

At recent summit meetings, the two leaders confirmed that they will promote active investment by Japanese companies in India considering the 5-trillion-yen target of public and private investment and financing from Japan to India over the next 5 years. Meanwhile, India has committed on streamlining compliance requirements and fostering a conducive business environment for smooth operations of Japanese companies in India. Emphasis has been laid on cooperation for the diversification and enhancement of supply chains through the "India-Japan Industrial Competitiveness Partnership". Leaders of the two countries have also agreed

to promote the "Clean Energy Partnership" aimed at achieving carbon neutrality and ensuring energy security at the global level. In addition, initiatives such as "Japan-India Energy Ministerial Dialogue" have been set out to ensure mutual cooperation in the areas of hydrogen, ammonia and LNG etc.

India's primary exports to Japan have been petroleum products, chemicals, elements, compounds, non-metallic mineral ware, fish & fish preparations, metalliferous ores & scrap, clothing & accessories, iron & steel products, textile yarn, fabrics, and machinery etc. India's primary imports from Japan are machinery, electrical machinery, iron and steel products, plastic materials, non-ferrous metals, parts of motor vehicles, organic chemicals, manufactures of metals, etc. Cumulatively, since 2000 up to 2019, Japanese investments in India have been around US\$ 32.058 billion with Japan securing third position among major investors.

Over the years, Japan has been one of the most important economic partners for India's development. India has been the recipient of immense financial assistance in the form of grants and loan from Japan. Japan's Official Development Assistance (ODA) has been a major support for India on its trajectory of enhanced economic development with special emphasis on areas like transportation, environment, and power.

The Delhi Metro is an illustrious example of successful India-Japan cooperation through the utilisation of Japan's ODA. More recent illustrations of this collaboration are—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) etc. All these megaprojects on the anvil are poised to transform India in the next decade.

Moreover, Japan continues to cooperate in supporting strategic connectivity linking South Asia to Southeast Asia through the synergy between "Act East" policy and "Partnership for Quality Infrastructure." Also, Japan and India have committed to build High-Speed Railway in India by introducing Japan's Shinkansen System, which is the flagship project of India-Japan relationship. On his last visit to India in 2022, Japanese Prime Minister Fumio Kishida announced an additional \$42 billion in Japanese investment over the next five years and secured partnerships in cybersecurity, development assistance, and clean energy development. He reiterated support for high-technology innovation and development, and contrary to the expectations of many, remained willing to maintain existing ties despite deviating views on matters like Ukraine.

Bilateral Treaties and Agreements between India and Japan

- Treaty of Peace (1952)
- Agreement for Air Service (1956)
- Cultural Agreement (1957)
- Agreement of Commerce (1958)
- Convention for the Avoidance of Double Taxation (1960)
- Agreement on Cooperation in the field of Science and Technology (1985)
- Japan-India Comprehensive Economic Partnership Agreement (2011)
- Agreement between the Government of Japan and the Government of the Republic of India Concerning the Transfer of Defence Equipment and Technology (2015)
- Agreement between the Government of Japan and the Government of the Republic of India Concerning Security Measures for the Protection of Classified Military Information (2015)
- Agreement between Japan and the Republic of India on Social Security (2016)
- Agreement between the Government of Japan and the Government of the Republic of India for Cooperation in the Peaceful Uses of Nuclear Energy (2017)
- Agreement between the Government of Japan and the Government of the Republic of India Concerning Reciprocal Provision of Supplies and Services between the Self-Defence Forces of Japan and the Indian Armed Forces (2021)

15.3 ECONOMIC CHARACTERISTICS OF JAPAN

In the following analysis you will find consolidated trends in GDP (in current US \$), Growth rate of GDP, Consumer Price Index (CPI), Population, Exports, and Imports, between 2000 and 2020. Sometimes due to unavailability of data the years may differ.

Variables under study:

Table 1- Development and Trade Indicators

Country	Series
Japan	GDP (current US\$)
	GDP growth (annual %)
	Consumer price index (2010 = 100)

	Population, total
	Exports of goods and services (current US\$)
	Imports of goods and services (current US\$)

Source: World Development Indicators, World Bank.

Some development indicators have been chosen for this kind of analysis that is known as quinquennial growth analysis. The data points are 2000, 2005, 2010 and 2020. In the case of GDP, Population, Export and Import an index has been presented. Generally, the base year of CPI is 2010.

$$\text{Index} = [((\text{GDP (2020)}/\text{GDP (2000)}) * 100) - 100]$$

This gives net growth during the 20-year period. Similarly, indices have been made for population, exports, and imports.

The GDP is 1.44 billion USD, in current prices. The GDP growth has always been low and uncertain. It has grown by only 1.41% in all these years. The growth rates have been -3, 2, 4, 2, and -5 per annum at 5 points of time, 2000, 2005, 2010 and 2020. During this period, the price rise was the lowest in the world. The CPI rose only from 100-105, which is 5% in 20 years. The population has fallen by around 0.5 per cent. Exports have grown by 50% and Imports by 76%.

15.4 INDIA'S TRADE WITH JAPAN

Given below is the trade pattern with Japan both in tabular form and graphical form. The overall pattern of India-Japan is given below. The data is taken from World Integrated Trade Solutions, World Bank.

Table 2 - India's Exports to Japan

Year	Exports
2000	1827671

2001	1551244
2002	1786977
2003	1709802
2004	1847648
2005	2455239
2006	2804220
2007	3263389
2008	3624209
2009	3215709
2010	4805077
2011	5592608
2012	6415550
2013	7325476
2014	5756879
2015	4529718
2016	3827283
2017	4497962
2018	4738146
2019	4815593
2020	4043285

Figure 1- India's Exports to Japan



India's exports to Japan grew by 121%. The maximum exports were achieved in the year 2013. Thereafter exports have been declining, In 2019 there was an increase in exports followed by a fall again in 2020. India's Imports have been rising sharply. They peaked out in 2018, only to decline slightly in 2020. There were three peaks in 2008, 2012 and 2018. The ratio of imports to exports started at 1.2 in 2000 and has gone up to 3.2 in 2018. Almost 3-fold increase in this ratio indicated that Japan has been able to successfully push its own exports into the Indian market.

Table 3- India's Imports from Japan

Year	Imports
2000	2218822
2001	1788176
2002	2139663
2003	2333143
2004	2962042
2005	3678528
2006	4743469
2007	5832826
2008	7784411
2009	6688836
2010	8265086
2011	11218263
2012	12362967
2013	10489824
2014	9963998
2015	9635158
2016	9808531
2017	10469212
2018	15181315
2019	12744472
2020	10206851

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Figure 2- India's Imports from Japan

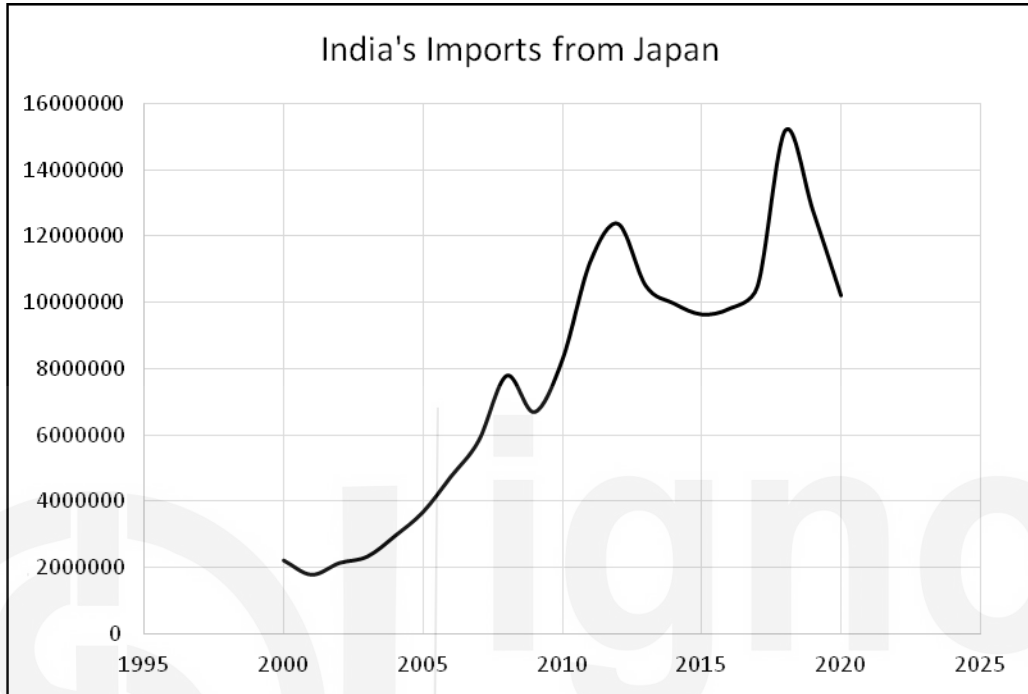


Figure 3 – India's Trade Balance with Japan

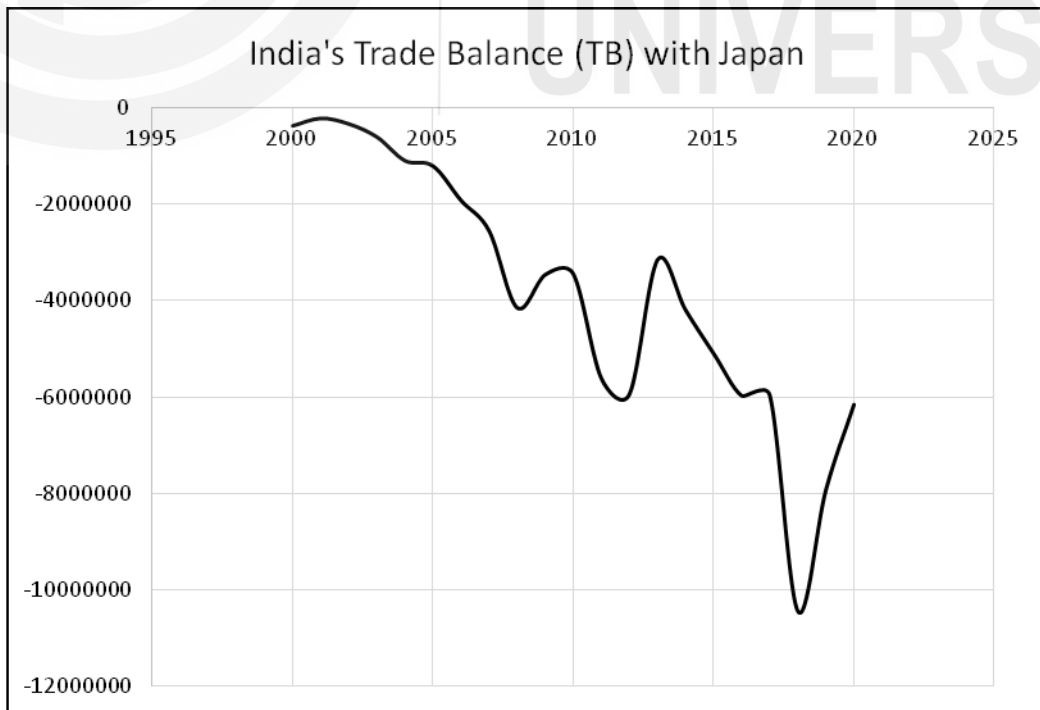


Table 4- India's Trade Balance with Japan

Year	Trade Balance (TB)
2000	-391151
2001	-236932
2002	-352687
2003	-623340
2004	-1114394
2005	-1223289
2006	-1939249
2007	-2569438
2008	-4160202
2009	-3473127
2010	-3460010
2011	-5625656
2012	-5947417
2013	-3164347
2014	-4207119
2015	-5105439
2016	-5981248
2017	-5971250
2018	-10000000.00
2019	-7928878
2020	-6163566

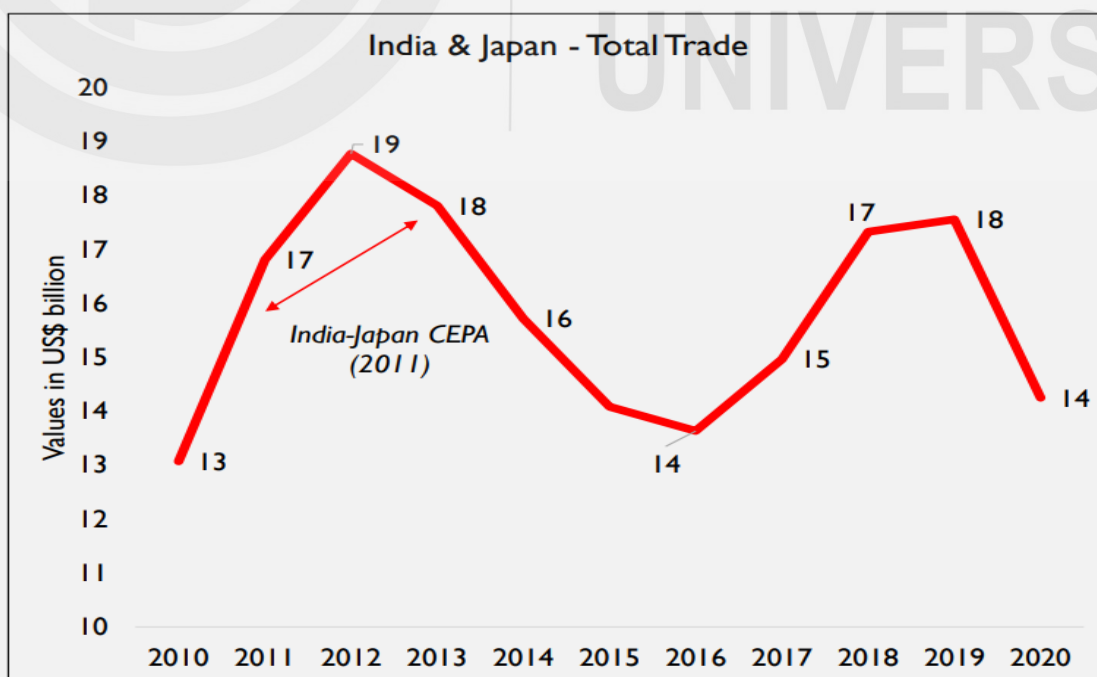
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During the Great Depression Japan used to import raw material like raw cotton and pig iron. During pre-independence times, India's share in Japan's trade was around 15%. So also did Japan. Of late the trading partners of both countries have been switched. Ever since, India-Japan trade has taken a hit. The level of bilateral trade has fallen. In 2018, India's share stood at 1.1% and that of Japan stood at 2.1%. Despite the advent of the Japan-India Economic Partnership Agreement, since August 2011, Indo-Japanese trade has not improved. The total trade between India and Japan was \$17.6 billion in 2018. This is even less than that with more recent trading partners like South Korea, which is a smaller country. Indo-Japan trade in value terms is less than one fifth of that with China.

Review of CEPA

The India-Japan Comprehensive Economic Partnership Agreement (CEPA) was signed on February 16, 2011, and came into force from August 1, 2011. It was aimed at fast-tracking business activities while 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 among the most comprehensive trade agreements that India has entered with any country.

Figure 4 - India and Japan Total Trade

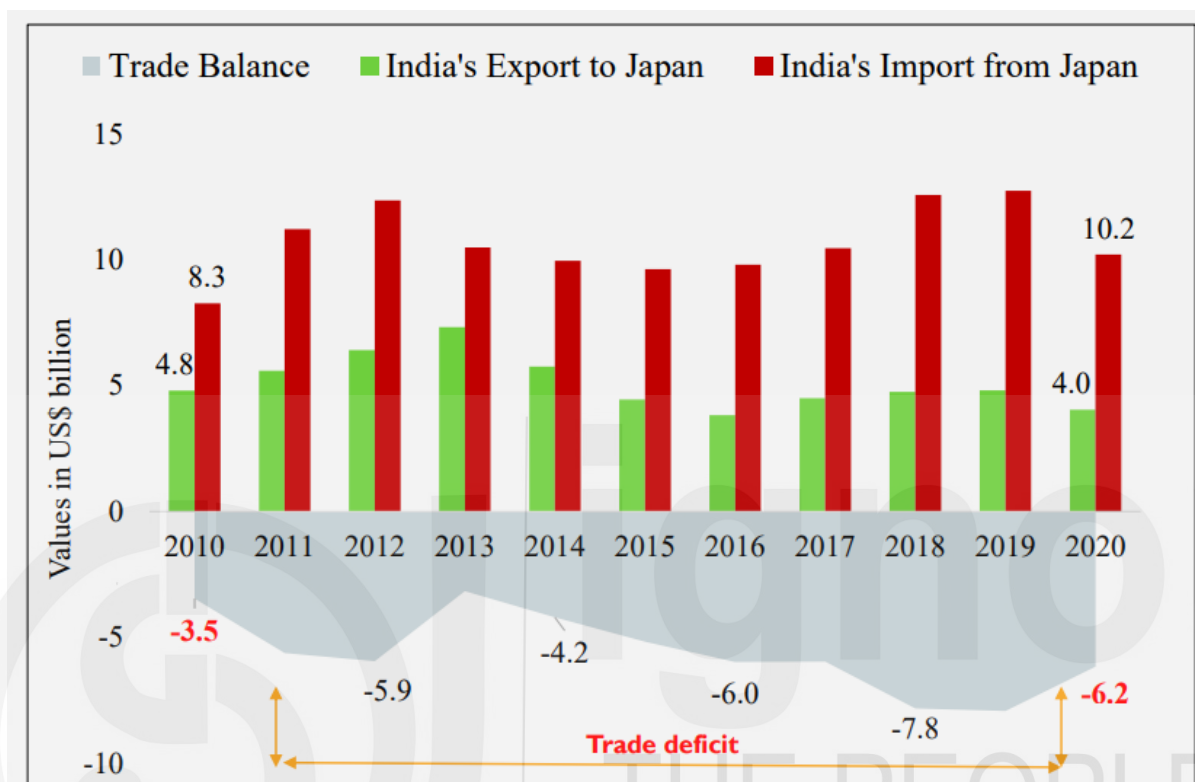


Source

e: ITC Trade Map

Since India & Japan signed CEPA in 2011, the total trade has shown a fluctuating pattern. Total trade peaked in 2012 at US\$19 billion and stood at US\$14 billion in 2020.

Figure 5- India's Trade Balance with Japan post CEPA.



Source: ITC Trade Map

Over the last 10 years India's trade deficit with Japan has been high and peaked in 2018 at US\$ 7.8 billion. However, during this time-period (2010- 2020), India's exports to Japan averaged US\$ 5 billion and imports averaged US\$ 11 billion.

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.

15.5 INDIA'S TRADE COMPOSITION WITH JAPAN

Given below is the trade pattern with Japan:

India's Merchandise Export

Indian Merchandise Exports to Japan includes commodities like -

- Petroleum products,
- Gems and Jewellery,
- Iron ore,
- Agricultural products,
- Oilseeds,
- Vegetable oils and fats,
- Edible nuts,
- Sugar and honey,
- Grains and Pulses,
- Wheat,
- Tea,
- Coffee,
- Spices and herbs,
- Tobacco,
- Leather garments and goods,
- Handicrafts,
- Carpets,
- Cashew.
- Fisheries products,
- Cotton,
- Animal feed.

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Indian seafood is the most in demand in Japan. So also, are Indian Mangoes. Japan has great apprehensions regarding pests. Especially, fruit flies and other insects. Although Japan has switched mango imports from India there is a considerable demand for mangoes in Japan. But India is not getting the advantage.

Recently, Japanese Exports to India have increased to 26.8% due to the huge increase in the export volume of each of the major commodities, like -

- Heavy machines,
- Electronic gadgets,
- Electronic spares,
- Toys,

- Gaming systems,
- Pharmaceutical products,
- Biotechnological products,
- Transport equipment's.

India has been a major recipient official development aid from Japan. Yet, there has been an almost stagnant pattern of bilateral trade with India. Whatever, little gains have been there have gone in favour of Japan. India's export basket has been restricted to traditional items like mineral oils, gems & jewels, marine products (mainly shrimps) and iron ore. The growing demand for electronics has been captured by South Korea.

While there is potential for India and Japan's exports being complementary, there has not been enough dynamism to lead to an evolving trade pattern. Whereas India has advantages in IT services and bioinformatics. it has not been able to take advantage of it.

India's major exports to Japan comprise petroleum products, followed by organic chemicals, fish and aquatic invertebrates, natural or cultured pearls, precious or semi-precious stones and machinery and mechanical appliances. 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's top import items from Japan are machinery and mechanical appliances, followed by electronics, iron and steel, plastics, and copper and its articles.

Consequently, India has been persistently running a 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. Reflecting the 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 etc. Thus, even though the total trade between both countries has almost doubled in the last 12 years, the widening trade deficit is a matter of concern for the long-term sustainability of bilateral trade relations.

15.6 INDIA'S TRADE PROSPECTS WITH JAPAN

The trade prospects with Japan are receding. The country has an extremely low inflation rate which retains the strength of its currency. This makes it difficult for India to penetrate in the

Japanese market. GDP growth in the entire period is only 1.41% which makes the market stagnant. Japan has diversified its trading partners which has gone against India.

The only advantage that India has is that of cheap labour. Many JVs (joint ventures) have come up between India and Japan. India has the advantage of having cheap labour and technical manpower. Many contracts are flowing to Indian companies for expansion of capacities. The recent rise in contracts means that Japan is still influenced by India's potential for cheap labour. The Joint venture companies have collaborated with India for developing it as a 'manufacturing hub for the global market'.

This situation does not help India in going up the value ladder. India has not been able to change its export basket from low value and traditional products. Whereas Japan has been able to improve its exports to India by exporting high value products. Heavy machines, electronics, biotech etc. are all examples of high value product.

Check Your Progress A

1. Write five bilateral treaties and agreements between India and Japan.

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2. Write five Indian merchandise exports to Japan.

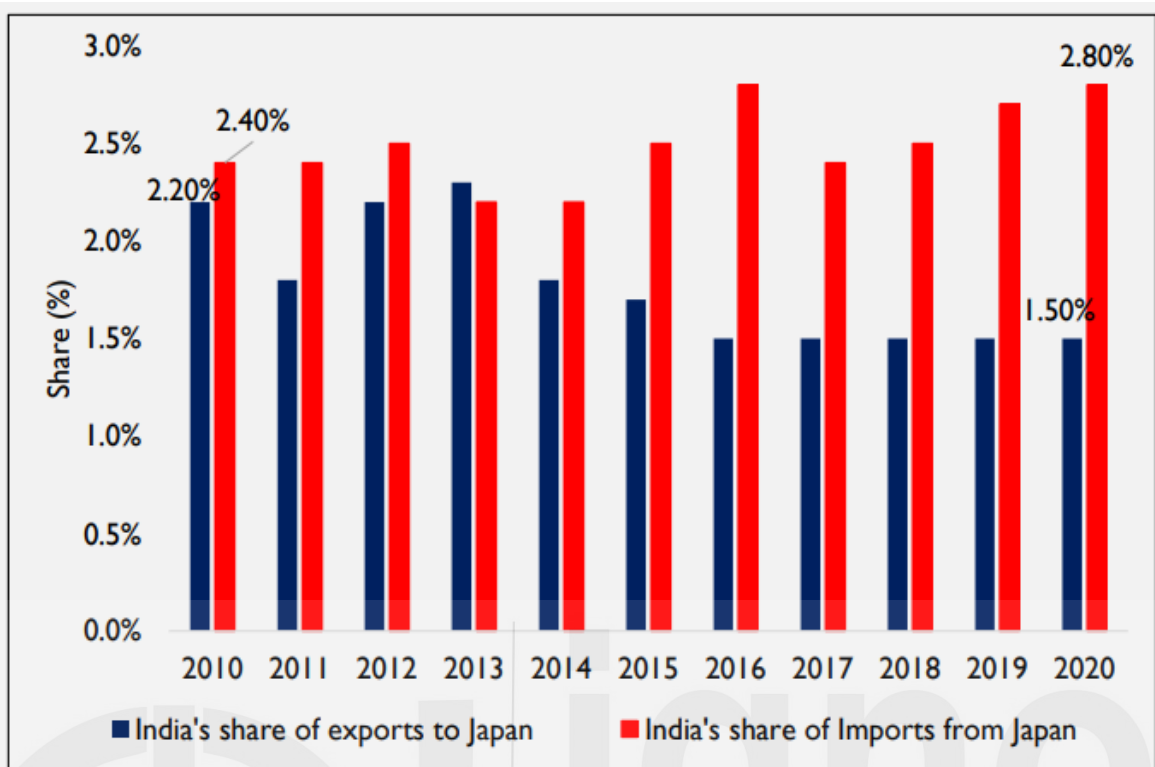
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3. Write five Japanese exports commodities to India.

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15.7 RECENT TRENDS OF BILATERAL TRADE

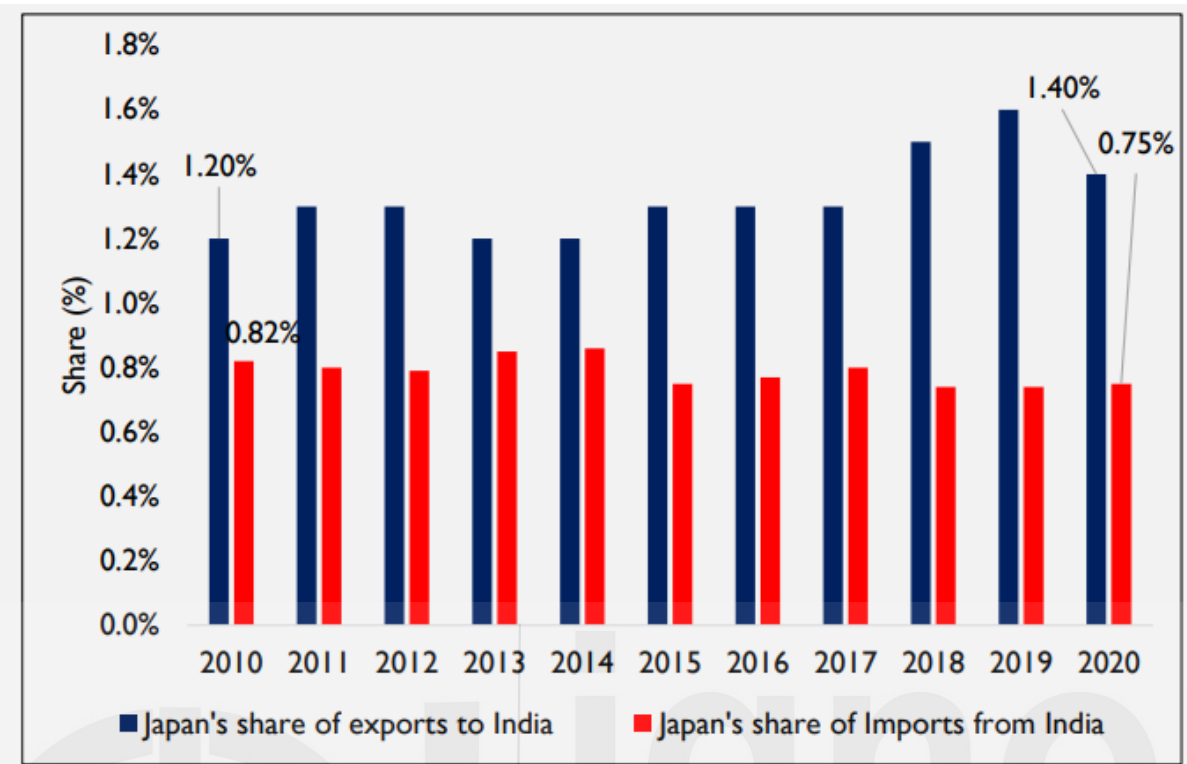
Figure 6-India-Japan Bilateral; Trade in their World Trade



Source: ITC Trade Map

The share of India's exports to Japan has been constantly declining. In 2010 the difference was 2.4% favouring Japan to 2.2% favouring India. But by 2020, in just 10 years the ratio has become 2.8% in Japan's favour (an increase by 0.4) and a decline by 0.7 against India. Now it stands at 2.8% favouring Japan to 1.5% favouring India. India's share has dropped by 33% and Japan's has improved by a sixth.

Figure 7- India's share of Exports and Imports with Japan



Source: ITC Trade Map

Figure 7 shows Japan's share of exports to India and Japan's share of imports from India. The share of Japan's share of exports to India has been constantly increasing, with the exception in 2020, due to Covid. In 2010 the difference was 1.2% favouring Japan to 0.82% favouring India. But by 2020, in just 10 years the ratio has become 1.4% in Japan's favour (an increase by 0.2) and a decline by 0.07 against India. Now it stands at 1.4% favouring Japan to 0.75% favouring India. India's share has dropped by 6.5% and Japan's has improved by a sixth.

Table 5- India's Top Exports to Japan

HS 2-digit	Product Name	Exports in 2020 (US\$ million)	Share in 2020 (%)	Exports in 2015 (US\$ million)	Share in 2015 (%)
29	Organic chemicals	566	14.0%	366	8.2%
3	Fish and crustaceans	380	9.4%	387	8.7%
27	Mineral fuels etc	349	8.6%	967	21.7%
71	Precious/ semi-precious stones/metals	340	8.4%	248	5.6%
84	Machinery, nuclear reactors, boilers; parts	284	7.0%	215	4.8%

Source: ITC Trade Map

Table 7 shows India's Top Exports to Japan. It is pertinent to note that among the major items in Japan's import basket, India has achieved a relatively healthy share (of more than 3 percent) in Japan's global imports of only three product categories, that are, organic chemicals, natural or cultured pearls, precious or semi-precious stones, and fish and other aquatic invertebrates. However, in the case of the other leading items in Japan's import basket, India's share is still marginal. Overall, there is an immense untapped export potential. According to India Exim Bank research, 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, etc.

In items that have a large export potential, India can improve her export performance by having its market access into Japan. Therefore, addressing barriers to trade is an important aspect of trade relations.

15.8 CHALLENGES AND OPPORTUNITIES

India and Japan have come a long way with their ties now constituting one of Asia's fastest and strongest bilateral relationship. The countries have a cultural proximity and shared agenda of accelerated development. However, the key issue is how to tackle the present power imbalance activated by the rapid growth of a gradually assertive China, which intends to shake up the maritime and territorial status quo. If India and Japan join hands, they can work together on bringing a paradigm shift in this power dynamic. Containing China, however, is not an option. China is the largest trading partner of both Japan and India, which cannot afford to disrupt their relationship with Beijing.

Japan considers India key to expanding its security options beyond its current US-centric framework, while India considers Japan as vital to the success of its 'Look East' strategy. In addition, Japan is viewed as a major support in terms of capital and technology which is central to upgradation of infrastructure and manufacturing base of India. The two countries have exhibited closer military relationship with Japan lifting its arms export ban and making way for joint production of weapon systems.

The dissimilarities between India and Japan create opportunities to generate valuable synergies through economic collaboration. Japan has a solid heavy manufacturing base, while India boasts services-led growth. India is a leader in software and Japan a leader in hardware. India has the world's largest youthful population, while Japan is aging more rapidly than any other major developed country. Also, Japan has financial and technological power while India has human capital and a tremendous market.

Despite having a CEPA, India has been running a persistent trade deficit with Japan, which has more than doubled during the decade, to US\$ 8 billion in 2019. Indian exports to Japan are presently affected by several issues, which include both tariff, and Non-tariff Barriers like Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). An India Exim Bank study titled "Study on Non-Tariff Measures" points out that in Japan, the average tariff on products of export interest to India are 7 percent, which is higher than the simple average (4 percent) of the tariff of the country. This is despite having 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. Thus, in the subsequent CEPA review negotiations, India can pursue tariffs reduction in these product categories. Other higher tariffs are imposed on clothing and certain food products, hence should also be reconsidered in the future

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

However, trade engagements between the two countries have been below potential. India has struggled to penetrate the Japanese market as a result of language barriers, high quality, and service standards. Hence, correcting this skewed trade situation with Japan while regulating China's market access and penetration is a mighty challenge for India. Given that China does not hesitate from blocking the ascent of India and Japan either by imposing military pressure or impeding the expansion of permanent membership of UN's Security Council, Government of India have been relentless in efforts to charm Nepal, Bhutan, and Japan. This has not only helped define the parameters for Asia's new democratic alliance but also added concrete strategic content to this special strategic and global partnership. Together these countries can revive each other's fortunes, catalyse their advent as superpowers and redefine the international trade and investment landscape.

Beyond Bilateral Trade

The potential for India and Japan's relation extends beyond the sphere of bilateral trade and investments. The 2016 India-Japan summit, gave birth to the idea of the Asia-Africa Growth Corridor (AAGC), which is a megaregional program aimed at improving ties between Asia and Africa. The idea is to further economic growth and promulgate sustainable development through industrial and institutional corridors and networks for capacity enhancement and seamless movement of trade, investment, and people.

India, through significant policy measures and institutional frameworks, has been consistently striving to foster a conducive trade and business environment with Asia and Africa. But India being a developing country has its own share of constraints and challenges in developing large-scale inter-continental infrastructure. Meanwhile, Japan, through its strong ODA, has been playing a complementary role in Africa. 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, 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.

Japan could leverage Indian business networks to enter and penetrate African markets whereas India could expand its exports of manufactured goods.

Apart from core business activities and sourcing of essential commodities, including food and agricultural items, Japan has been turning to India to meet its rising demand for labour across sectors that has led to collaborations in skill development. Meanwhile, strong bilateral exchanges in heavy industries have paved the way for the nations to jointly incubate grassroots entrepreneurship, be it an MSME or a digital start-up. The India-Japan Digital Partnership (I-JDP), launched in 2018, has driven this initiative. Backed by growing capabilities in AI, IoT, automation, robotics, and other next-gen technology, India-Japan ties have now spread across rural empowerment to defence and security.

Traditional linkages between the two nations, which go back 1,400 years, have steadily matured to cover every scope of equitable and sustainable economic growth. Building on this strategic partnership, the Governments of India and Japan held their first 2+2 Foreign and Defence Ministerial Meeting in New Delhi in November 2019. The vital consultation sought to discuss ways to jointly address the ongoing challenges to the sovereignty and territorial integrity in the Indo-Pacific region. As India and Japan have a shared perception of the growing military challenge, both countries can go in for multiple agreements in the future, such as Mutual Logistic Support Arrangement, Preventing and Combating Serious Crime, Reciprocal Access Agreement, and, Geo-Spatial Cooperation.

The two countries have taken new initiatives for defence Projects such as UAVs, anti-drone systems, robotics, and underwater communication. Of these initiatives, using robotics in the defence sector to produce military robots with artificial intelligence to decrease casualties in counter-terrorism operations and natural disasters, could turn out to be a pathbreaking development. Although there is active robotic cooperation between India and Japan, with many Japanese companies like ABB Robotics, Kawasaki Robotics, and Yaskawa having heavy investments in India, these are for civilian uses, mainly commercial in nature. India and Japan must evolve their tactical partnership and civil-military fusion at a greater pace.

Further, trilateral cooperation among Taiwan, India and Japan can help us as a possible synergy between the three can help maintain the freedom of the Indo Pacific region. Taiwan is a leading country in the manufacture of semiconductors, with Taiwan Semiconductor Manufacturing Company (TSMC) occupying 80 per cent of the microcontrollers used in cars.

Trilateral cooperation involving Taiwan for microcontrollers, Japan for robotics and India for its software technology and the final-end manufacturing of robot soldiers can add new dimensions to the expanding domain of the Indo Pacific. The emerging domain of ‘weather warfare’ and hybrid warfare, where the weather can be artificially modified and used as a weapon of war to accelerate food shortages and military casualties, should not be overlooked by the Indian defence agencies and their research institutes. Thus, a strong Indo-Japan military cooperation is the need of the hour and would serve the strategic interests of both.

Today, India-Japan leadership is actively driving efforts to usher in prosperity in the developing world, resolving challenges brought forward by COVID-19, climate change, disruptive technologies, and modern-day terrorism. In the future, the marriage of India’s human capital and Japan’s technological prowess will be the epicentre of sustainable global growth and trade will strengthen that growth.

15.9 LET US SUM UP

The trade prospects with Japan are receding. The Japanese market is difficult for India to penetrate. Moreover, the Japanese market is stagnant. Japan has diversified its trading partners which has gone against India.

The only advantage that India has is that of cheap labour. The recent rise in contracts means that Japan is still influenced by India’s potential for cheap labour.

India has not been able to change its export basket from low value and traditional products to high value products. Whereas Japan has been able to improve its exports to India by exporting high value products. Heavy machines, electronics, biotech etc. are all examples of high value products. India has not been able to take advantage of service exports and high-tech areas like computers and biotech.

The ratio of imports to exports started at 1.2 in 2000 and has gone up to 3.2 in 2018. Almost three-fold increase in this ratio indicated that Japan has been able to successfully push its own exports into the Indian market.

It is pertinent to note that among the major items in Japan’s import basket, India has achieved a relatively healthy share (of more than 3 percent) in Japan’s global imports of only three product categories, that are, organic chemicals, natural or cultured pearls, precious or semi-precious stones,

and fish and other aquatic invertebrates. However, in the case of the other leading items in Japan's import basket, India's share is still marginal. Overall, there is an immense untapped export potential 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, etc.

The potential for India and Japan's relation extends beyond the sphere of bilateral trade and investments. Apart from core business activities and sourcing of essential commodities, including food and agricultural items, Japan has been turning to India to meet its rising demand for labour across sectors that has led to collaborations in skill development. Moreover, the two countries have taken new initiatives for defence Projects such as UAVs, anti-drone systems, robotics, and underwater communication. Further, trilateral cooperation between Taiwan, India and Japan can help us as a possible synergy between the three can help maintain the freedom of the Indo Pacific region. Overall, India-Japan relationship could go a long way in resolving challenges of COVID-19, climate change, disruptive technologies, and modern-day terrorism.

A strong India is in Japan's best interest and for that, Japan must provide even more support. India must leverage Japan's strengths in areas such as medical equipment and hospitals. India and Japan must endeavour to work together for a rules-based and inclusive world order. The countries should continuously enhance communication and connectivity for unimpeded trade and flow of people, technology, and ideas for shared prosperity. Moreover, their cooperation is imperative for peace, stability, and prosperity of Indo-Pacific.

Check your progress B.

1. Write two challenges of India's trade with Japan.

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2. What is trilateral cooperation among Taiwan, India and Japan?

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3. Answer the following questions.

- I. Japan is not good for trade because it
- II. Japan's main strength in trade is
- III. Which is the top product exported from Japan?
- IV. When did India have a positive balance with Japan?
- V. Why does the Japan have a strong currency?
- VI. In which year did both exports and imports go down?
- VII. Are there any common products export mutually between India and Japan?

15.10 ANSWERS TO CHECK YOUR PROGRESS

- I. A stagnant market
- II. Extremely low inflation rate.
- III. Electronics.
- IV. Never.
- V. Exceptionally low inflation rate.
- VI. 2020.
- VII. No.

15.11 TERMINAL QUESTIONS

- 1. What potential does trade with Japan hold for India?
- 2. Explain the current trends in India Japan trade?
- 3. Why has India Japan trade been stagnant? Give arguments and suggest measures to improve the trade.
- 4. Analyse the product exported from India to Japan? How are these disadvantageous?
- 5. Describe the recent trends in India's trade with Japan?

6. How do the dissimilarities between India and Japan create viable opportunities for the two countries? Justify your answer with examples.
7. Despite having a CEPA, India has been running a persistent trade deficit with Japan. Elaborate on this statement with a review of India's CEPA with Japan.

Reference

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