
TRADE RELATIONS BETWEEN INDIA AND JAPAN

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Abstract

The Indo Japanese relations have undergone a paradigm shift in recent times through Japan is the sixth largest invested in India there is the hope that the proportion of investment will significantly increase. The India will need to create an invested friendly environment by introducing for other economic reforms and changing policies to address the grievances expressed by Japanese investors to increase investment. The economic co-operation between the two nations has been steady with Japan's total loans to India. The agreement on commerce between Japan and India was one of the remarkable treaties signed by the two nations to strengthen their trade relations. Indo – Japan Bilateral Development Cooperation has been remarkable and progressive expansion in recent years. The strong economic growth of India is predicted to continue over the long run and these are the ever-widening prospects for the country to become an economic power. The driving forces for further prosperity in Asia Japan and India have continue to developed their friendly relations founded on along history of exchanges.

Keywords: Direct exchange, economic co-operation, WW II, Overseas Development assistance, Bilateral Relations, economic reforms

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. The relations developed steadily as Japan's imports of ore and exports of manufactured products increased. Following Japanese Prime Minister Nobusuke Kishi visit to India in 1957, yen loans to India began in 1958, as the first loan aid extended by Japan. In 1958 Japan participated in the Consortium Meeting of India's creditor countries hosted by the World Bank and embarked on the full-scale assistance to India that has continued to the present. Since fiscal 1986 Japan has been India's largest aid donor. The 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. Japan also took a series of measures in accordance with Japan's Overseas Development assistance (ODA) Charter. But both sides have been making extreme efforts to understand each other through dialogue the important partners in Asia.

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India - Japan Bilateral Relations

Indo-Japan bilateral development cooperation has seen remarkable and progressive expansion in recent years. The Government of Japan provided Yen 1250.04 million for projects in FY 2003, in which India became the largest recipient of the Japanese Overseas Development Assistance (ODA). Till the 2003-04, Japan has provided approximately Yen 2193 billion on commitment basis as ODA to India. The Japan plans to start exploring for natural gas on its own in the area possibly in the summer months (June-August) and embark as early as next year on joint exploitation of natural gas led by the private sector, according to government sources. The Japanese Government will start selecting private contractors for drilling and development of natural gas in the area. The natural gas from the field will be supplied to India via pipeline and be exported to Japan as well. The Japan wants to diversify its sources of natural gas as it currently relies on imports for 97 percent of its needs with Indonesia, Malaysia and Australia being the major suppliers. The natural gas deal is also aimed at strengthening bilateral ties as Japan's ruling party hopes to use its strong partnership with India for checking China's increasing presence in western Asia. The deal also reflects a tie-up between Japan and India in their bids to become permanent members of the United Nations Security Council.

While Japan is implementing structural economic reforms, India is in the process basic economic reforms. The Japan-India Joint Declaration of December 10, 2001 has set the ball rolling for things to shape up in Indo-Japanese relationship in the 21st century. To raise the bilateral relationship to a qualitatively new level is the ultimate of the Joint Declaration. The stronger Indo-Japanese bilateral relations would also mean a more stable and prosperous Asia. The broader and deeper economic relations between the countries would form the cornerstone of this bilateral relationship. Both the countries are strongly committed to an open and non-discriminatory rule-based multilateral trading system. Indo-Japanese trade relations and economic cooperation is going stronger by the years, though, if compared with neighboring China's trade with Japan, India's share in Japan's total trade does not give any impressive look. So also in the field of foreign direct investment. Japan, which is the fourth largest investor in India itself, is not happy with this rate. India has to do a lot to create an investor-friendly environment through speedier economic reforms and freeing the country from clutches of deregulation at the earliest.

Economic and Commercial Co-Operation

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. In financial year 2013-2014, Japan-India bilateral trade reached \$ 16.31% billion, which is 11.89% lower than \$18.51% billion in the previous fiscal year. The fall in the total trade is mainly due to reduction in Japanese exports by 23.53%. However India's exports have risen by 4.36% in 2013-14. The share of the India-Japan bilateral trade has been hovering around 1% of Japan's total trade foreign trade, while it was in the range of 2.2 to 2.5 %

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of India's total trade in the last couple of year. India's primary exports to Japan have been petroleum products, chemicals, non-metallic minerals, fish and fish products, metal libelous ores and scrap, gems and jewelry, animal feeds, iron and steel products, clothing and accessories, textile and fabrics and machinery etc. India's primary imports from Japan are machinery, iron and steel products, electrical machinery, transport equipment, plastic materials, metal products, etc. In financial year 2012-2013, Japan-India bilateral trade reached \$18.61 billion, marginally higher than \$18.43 billion in the previous financial year. Japanese FDI into India increased by 19.8% over 2011 to reach \$2786 million, although it accounted for only 2.3% of Japan's overall FDI outflow in 2012. Japanese FDI into India has mainly been in automobile, electrical equipment, telecommunications, chemical and pharmaceutical sectors. The Japanese's companies have made an investment of \$12.66 billion in India between April 2000 and June 2012. FDI outflows from India, on the other hand, had been around US\$19-21 billion per year during 2007-08 to 2013-14. This accounted for 7% of total FDI inflow into India and made Japan the 4th largest investor in India. The Japanese automakers are moving to bolster Indian production bases the Japanese heavy electrical machinery manufacturers and trading houses are also eyeing demand stemming from India's efforts to improve its underdeveloped power infrastructure.

Exports

During August,2016 exports were valued at US\$ 21518.60 million (Rs.144044.67 crore) which was 0.30 per cent lower in Dollar terms (2.56 per cent higher in Rupee terms) than the level of US\$ 21582.67 million (Rs.140443.43 crore) during August,2015. Cumulative value of exports for the period April-August 2016-17 was US\$ 108519.94 million (Rs.726776.04 crore) as against US\$ 111853.88 million (Rs.713808.46 crore) registering a negative growth of 2.98 per cent in Dollar terms and positive growth of 1.82 per cent in Rupee terms over the same period last year. Non-petroleum exports in August 2016 are valued at US\$ 19084.31million against US\$ 18749.42 million in August 2015, an increase of 1.79 %. Non-petroleum exports during April to August 2016 are valued at US\$ 96983.74 million as compared to US\$ 97485.84 million for the corresponding period in 2015, a reduction of 0.52%.The growth in exports have fallen for USA (-4.35%), EU (-2.16%), China (-4.94%) but Japan exhibited positive growth (8.67%) for June 2016 over the corresponding period of previous year as per latest WTO statistics.

Imports

Imports during August 2016 were valued at US\$ 29192.74 million (Rs.195415.03 crore) which was 14.09 per cent lower in Dollar terms and 11.63 per cent lower in Rupee terms over the level of imports valued at US\$ 33981.73 million (Rs.221126.92) in August, 2015. Cumulative value of imports for the period April-August 2016-17 was US\$ 143189.49 million (Rs.959102.25 crore) as against US\$ 170234.30 million (Rs.1086515.26 crore) registering a negative growth of 15.89 per cent in Dollar terms and 11.73 per cent in Rupee terms over the same period last year.

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Exports

Exports during July 2016 were valued at US\$ 12775 Million (Rs.85857.71Crore) registering a negative growth of 4.11 per cent in dollar terms as compared to negative growth of 1.03 per cent during June 2016 (as per RBI's Press Release for the respective months).

Imports

Imports during July 2016 were valued at US\$ 7409 Million (Rs. 49794.11 Crore) registering a negative growth of 11.68 per cent in dollar terms as compared to positive growth of 5.89 per cent during June 2016 (as per RBI's Press Release for the respective months).

Merchandise

The trade deficit for April-August, 2016-17 was estimated at US\$ 34669.55 million which was 40.61% lower than the deficit of US\$ 58380.42 million during April-August, 2015-16.

Services

As per RBI's Press Release dated 15th September 2016, the trade balance in Services (i.e. net export of Services) for July, 2016 was estimated at US\$ 5366 million. The net export of services for April- July, 2016-17 was estimated at US\$ 21562 million which is lower than net export of services of US\$ 22371 million during April- July, 2015-16. (The data for April-July 2015-16 and 2016-17 has been derived by adding April-July month wise QE data of RBI Press Release.

Overall Trade Balance

Overall the trade balance has improved. Taking merchandise and services together, overall trade deficit for April- August 2016-17 is estimated at US\$ 13107.55 million which is 63.60 percent lower in Dollar terms than the level of US\$ 36009.42 million during April-August 2015-16. (Services data pertains to April-July 2016 as July 2016 is the latest data available as per RBI's Press Release dated 15th September 2016).

Table-1 Merchandise Trade

| Exports and Imports : (US \$ Million) | | |
|--|---------------|---------------------|
| (Provisional) | | |
| | August | April-August |
| Exports | | |
| 2015-16 | 21582.67 | 111853.88 |
| 2016-17 | 21518.60 | 108519.94 |
| %Growth2016-17/ 2015-16 | -0.30 | -2.98 |
| Imports | | |
| 2015-16 | 33981.73 | 170234.30 |
| 2016-17 | 29192.74 | 143189.49 |
| %Growth2016-17/ 2015-16 | -14.09 | -15.89 |
| Trade Balance | | |
| 2015-16 | -12399.06 | -58380.42 |
| 2016-17 | -7674.14 | -34669.55 |
| Exports and Imports : (Rs. Crore) | | |

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| (Provisional) | | |
|---------------------------------------|-----------|--------------|
| | August | April-August |
| Exports (including re-exports) | | |
| 2015-16 | 140443.43 | 713808.46 |
| 2016-17 | 144044.67 | 726776.04 |
| %Growth2016-17/ 2015-16 | 2.56 | 1.82 |
| Imports | | |
| 2015-16 | 221126.92 | 1086515.26 |
| 2016-17 | 195415.03 | 959102.25 |
| %Growth2016-17/ 2015-16 | -11.63 | -11.73 |
| Trade Balance | | |
| 2015-16 | -80683.49 | -372706.80 |
| 2016-17 | -51370.36 | -232326.21 |

Source: RBI Press Release dated 15th September 2016.

Table-2 Services Trade

| Exports and Imports (Services) : (US \$ Million) | |
|--|--------------|
| (Provisional) | July 2016-17 |
| Exports (Receipts) | 12775.00 |
| Imports (Payments) | 7409.00 |
| Trade Balance | 5366.00 |
| Exports and Imports (Services): (Rs. Crore) | |
| (Provisional) | July 2016-17 |
| Exports (Receipts) | 85857.71 |
| Imports (Payments) | 49794.11 |
| Trade Balance | 36063.60 |

Source: RBI Press Release dated 15th September 2016.

The demand and the supply forces for the individual commodities concerned altered their percentage shares in the indo Japanese trade. And as such the commodity group did not occupy the same ranks value wise in all the years of the study. The argument of the study is that there had been a significant growth in the indo-Japanese trade relations during this period. Through the expanding growth of trade was both in exports and imports from Japan the trend was not a steady one and so caused instability in India's trade. This trade had a favorable element in it namely that its growth was diversified bringing into composition varieties of commodities. Though India stood to gain from its trade with Japan and there is good scope for expansion of this trade. The problem is that the growth of this trade is dependent on bilateral trade agreement and not an account of price responsiveness of the commodities involved in trade and result of international market force of trade and therefore not realistic.

Conclusion

The conclusion of the India-Japan Comprehensive Economic Partnership Agreement (CEPA) needs to be expedited to tap the huge potential that exists for further development,

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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. There exists 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 favourable 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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