



# A comprehensive economic partnership between India and Japan: Impact, prospects and challenges<sup>☆</sup>



Biswa Nath Bhattacharyay<sup>a,1,\*</sup>, Kakali Mukhopadhyay<sup>b</sup>

<sup>a</sup> Asian Development Bank (formerly), Manila, Philippines

<sup>b</sup> McGill University, Montreal, Canada

## ARTICLE INFO

### Article history:

Received 18 July 2014

Received in revised form 26 June 2015

Accepted 27 June 2015

Available online 4 July 2015

### JEL classification:

F1

F2

Q1

D6

R1

Q1

### Keywords:

Asia

India–Japan economic cooperation and integration

Trade and investment

Comprehensive trade and economic partnership agreement

CGE model

## ABSTRACT

This paper examines the benefits and challenges of the 2011 Comprehensive Economic Partnership Agreement (CEPA) between India and Japan, specifically the ways to maximize gains from their complementary economies, trade and FDI relations. It also measures the partnership's economy-wide impact empirically, and its role in regional and global integration. An analysis of the trade intensity indices shows that the bilateral trade flow is small considering the other country's importance in world trade, suggesting the existence of great potential for improving trade relations. The computable general equilibrium (CGE) analysis of the economy wide impact of the CEPA suggests that tariff reductions will create a marginal increase in output growth for both India and Japan as compared to the business as usual scenario. In terms of the effect on exports, India's exports to Japan would increase more than those of Japan to India while positive net welfare gains are expected for both countries as a result of trade liberalization. This is in contrast to the study by Ahmed (2010), which finds welfare gains only for Japan, not for India. Furthermore, one of the striking results of the paper is that Japan will not reduce its heavy reliance on the Chinese market, though India will. In general, India, compared to Japan, will gain more, if CEPA materializes by 2020. Japan too will have welfare gains in spite of opening up the agriculture sector with 100% tariff reduction by 2020. Both countries need to accelerate structural reforms to remove the border barriers in addition to reducing tariffs, in order to reap maximum benefit of their economic partnership.

© 2015 Elsevier Inc. All rights reserved.

## 1. Introduction

Bilateral trade between Japan and India has been expanding in the recent years. On one hand Japan intends to strengthen its economic partnerships with the Asian countries with which it has deep interdependent relations, not only through the expansion of trade, investment and services but also through the harmonization of rules and regulations in various fields and facilitation of the movement of people. On the other hand, India's growing economy in recent years has been adapting its

<sup>☆</sup> Authors thank Cedric Tille, The Graduate Institute of International and Development Studies, Geneva, the anonymous referees and the editor for providing useful comments to improve the paper.

\* Corresponding author. Tel.: +91 8420450802.

E-mail addresses: [dr-biswa@yahoo.com](mailto:dr-biswa@yahoo.com) (B.N. Bhattacharyay), [kakali.mukhopadhyay@mcgill.ca](mailto:kakali.mukhopadhyay@mcgill.ca) (K. Mukhopadhyay).

<sup>1</sup> The paper was prepared when the author was an Advisor with Asian Development Bank

foreign policy to increase its global influence and status and to meet the challenges of the 21st century (Rajamohan, Rahut, & Jacob, 2008).

India and Japan complement each other in many areas, and share common interests in trade and investment promotion, securing energy resources, environmental protection, climate change and fighting international terrorism among others. In view of this, there is a huge opportunity to enhance trade and investment between the two countries. A strategic relationship is beneficial not only for these two countries but also for the whole Asian region. After about four years of negotiations, the Comprehensive Economic Partnership Agreement (CEPA) between India and Japan was finally concluded in October 2010 and was finally signed on February 16, 2011. The agreement elevated the strategic and global partnership between Japan and India to a new level.

The India–Japan CEPA is expected to develop areas of potential mutual complementarities, strengthen the bilateral economic relationship and promote economic development by increasing the cross-border flows of goods, persons, investment and services. It is also expected to create new business opportunities, enhance competitiveness of the private sectors of both countries, and encourage closer partnership between the pair's private sectors, from small and medium enterprises (SMEs) to infrastructure-related enterprises. CEPA's implementation will strengthen the foundation for the economic development of Japan and India through closer cooperation between the two countries in various fields, and will make maximum use of respective competitive advantages to promote the development of both economies (Ministry of Foreign Affairs of Japan, 2010).

This paper examines the prospects and challenges of forging a deep and comprehensive India–Japan economic partnership and ways to maximize gains from their complementary economies, trade and investment relations. The paper also attempts to measure empirically the economy-wide impact of tariff reductions through a computable general equilibrium (CGE) model. Lastly, the paper looks into the role of the bilateral partnership in promoting India and Japan's regional and global integration.

The rest of the paper is organized as follows. Section 2 discusses the prospects of deepening economic, particularly trade, relations between India and Japan. It looks at the economic trends and characteristics of the two countries and demonstrates the complementarities of the economies. Section 3 presents the barriers, impediments and challenges to deeper trade and economic cooperation. Section 4 examines the India–Japan economic cooperation. It begins with a discussion of Japanese official development assistance (ODA) to India and moves on to analyze Japan's free trade agreement (FTA) policy, and India's Look East Policy and the development of the Japan–India CEPA. Section 5 evaluates the economy-wide impact of the tariff reductions in the proposed CEPA between India and Japan using a CGE analysis, finally, Section 6 discusses the dimensions of India–Japan cooperation in the major, common regional and global issues as well as way forward, including the actualization of future prospects and ways and means of meeting the challenges.

## 2. Prospects for deeper trade relations

For a long period, especially until the 1990s, India–Japan bilateral trade was stagnant without exceeding the US\$4 billion mark (Rajamohan et al., 2008). This may be due to the fact that India's trade was primarily directed towards Europe and the US markets because of its cultural and colonial past. The stagnation in the economic relationship between India and Japan was finally broken when India embarked on major economic reforms by liberalizing the country's economy and adopting an open-door “Look-East” policy that led to a gradual acceleration of bilateral business relationships in 1991.

Despite robust growth in the overall trade of both India and Japan with the world in recent years, the bilateral trade between the two countries has remained quite low (Rajamohan et al., 2008). Table 1 shows the steady rise of bilateral trade between the two countries between Financial Year (FY) April 2005–March 2006 and 2012–13. Total bilateral trade exhibited significant increase as 2012–13 level registered around three-fold increase compared to 2005–06 level. India's export to Japan and its import to Japan witnessed about three-fold increase during the same period. The bilateral trade deficit of India with Japan has increased by four times during this period from \$1.58 billion in 2005–06 to \$6.31 billion in 2012–13.

While India's trade with Japan almost tripled in 2012–13 compared to 2005–06 level, it remains very small compared with that with other countries exhibiting significant potential for trade expansion. The share of India's export to Japan to

**Table 1**  
Trends in bilateral trade between India and Japan (US \$ Billion).

| Financial year            | 2005–06     | 2006–07     | 2007–08      | 2008–09      | 2009–10      | 2010–11      | 2011–12      | 2012–13      |
|---------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| India's export to Japan   | 2.48        | 2.87        | 3.86         | 3.02         | 3.63         | 5.09         | 6.33         | 6.10         |
| India's total export      | 103.09      | 126.41      | 163.13       | 185.29       | 178.75       | 251.13       | 305.96       | 300.30       |
| % Share export            | 2.41        | 2.27        | 2.37         | 1.63         | 2.03         | 2.07         | 2.07         | 2.10         |
| India's import from Japan | 4.06        | 4.59        | 6.32         | 7.89         | 6.73         | 8.63         | 12.10        | 12.41        |
| India's total import      | 149.17      | 185.73      | 251.65       | 303.69       | 288.37       | 369.77       | 489.32       | 491.90       |
| % Share of import         | 2.73        | 2.48        | 2.52         | 2.6          | 2.34         | 2.33         | 2.47         | 2.52         |
| <b>Total Trade</b>        | <b>6.54</b> | <b>7.46</b> | <b>10.18</b> | <b>10.91</b> | <b>10.36</b> | <b>13.72</b> | <b>18.43</b> | <b>18.51</b> |

Source: Based on CEIC Database (2014).

Download English Version:

<https://daneshyari.com/en/article/5087246>

Download Persian Version:

<https://daneshyari.com/article/5087246>

[Daneshyari.com](https://daneshyari.com)