

## **Indo-Japanese Comprehensive Economic Partnership Agreement (CEPA) - A Tool of Strengthening Bilateral Trade Relations**

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**Abstract**—The present paper attempts to portray the bilateral benefits to be shared by partnering countries through bilateral trade agreements in the backdrop of Indo-Japan Comprehensive Economic Partnership Agreement. While WTO endeavors to bring order, justice and equity in world trade, the bilateral trade pacts between the countries help in building people-to people relationship in both the countries, while sharing enormous political, social and economic gains.

Indo-Japanese Trade Pact assumes greater significance than ever before in the times of changing global economic order. Japan gives 30 per cent of its foreign aid to India and is committing more than US\$ 4 billion to the Delhi-Mumbai Industrial Corridor (DMIC). Indian exports to Japan in 2006-07 were US\$ 2812.83 million while imports from Japan were to the tune of US \$ 4560.84 million. The factors like higher growth rates and expanding markets in India, rising costs and wage rates in China are attracting Japan to look towards India, while growing access in Japan benefit Indian firms in textile, pharmaceutical, Jems and Jewlleries, leather goods sectors. The CEPA is expected to more than double bilateral trade from \$12 billion to \$ 25 billion by 2014. Japanese companies have been eyeing the Indian market with greater interest, especially in the capital goods sector. A recent survey of over 600 Japanese companies indicated that 75 per cent looked upon India favourably as an investment destination (compared to 72 per cent for China). There are various bottlenecks in the implementation of the pact, like Rules of origin, a 15 per cent withholding tax, implementation process of SPS norms in Japan. While the investment environment and physical infrastructure still needs to be a lot more investor friendly, the charges of corruption in the state leaves a lot to be desired. Exporters also face difficulties in understanding guidelines and regulations, since they are mostly in the Japanese language.

**Keywords**— Bilateral Trade, CEPA, Economic Cooperation and Trade Negotiations



### **I. BACKDROP OF CEPA**

The **Comprehensive Economic Partnership Agreement** (CEPA) is a free trade agreement between two nations. It paves the way for greater economic cooperation, and will provide better access to market for products of both the nations in the respective territories. The unusual name for the agreement was suggested by India. It is equivalent to a free trade agreement. CEPA between India and Japan is a preferred trade arrangement. These types of Free Trade Agreements-FTAs require the respective governments to make commitments far in excess of those it has already signed up to at the World Trade Organisation (WTO). It will have huge impact across financial, banking, agricultural, industrial sectors apart from health and environmental concerns in both the nations.

## II. RESEARCH DESIGN

### **1. Review of Literature**

Historically Indo Japan relations are centuries old. Japan had special relation with India, when Buddhism was introduced to Japan via the Korean Peninsula. During Meiji era (1868-1912), bilateral relations developed with Japanese purchases of cotton directly from India, (Roy, 2008).

India's friendship with Japan after the war helped a great deal when Japan returned to the international arena. Since 1952, Japan and India maintained diplomatic relations and enjoyed cordial relations based on trade, economic and technical cooperation. Following Japanese Prime Minister Nobusuke Kishi's 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. Japan and India have traditionally enjoyed cordial and friendly relations and the feelings of Indian people towards Japan have been good, (Banga, 2004). The 1980s marked the beginning of a new phase in Indo-Japan relations with the establishment of joint venture – the *Maruti-Suzuki* plant to manufacture cars in India. The visit of Prime Minister Yasuhiro Nakasone to India in 1984 – the first visit by a Japanese PM in 23 years – followed by the visits of Prime Minister Rajiv Gandhi to Japan in 1985, 1987 and 1988 established a high-level political dialogue. The changing politico-economic-security-energy- nuclear needs and ambitions of both India and Japan slowly persuaded each other, to enter into “probably the most important bilateral relationship”, (Pinto, 2006b)

### **2. Statement of the problem**

India and Japan share a special relationship as fellow democracies seeking greater economic engagement in Asia. However there were certain exogenous factors like cold war that kept the two strong economies of Asia away from each other. During the Cold War era, if India was guilty of dismissing Japan as a camp follower of the US, the Japanese in turn perceived India as a chaotic, dysfunctional, desperately poor country and not as a potential partner. With the end of the Cold War, India began its “Look East” policy in the early 1990s that dovetailed with the opening up and liberalization of its economy. However, of the total Japanese global trade, India had a minuscule share and ranks 20th among Japan's trade partners, well below the US, China, European Union, and East and Southeast Asian countries. The Indian nuclear tests of 1998 marked a low point in bilateral relations. Japan suspended all political exchanges and even economic assistance was frozen for nearly three years. This kind of fluctuations in the relations between the two gigantic nations of Asia restrained both the countries in reaching their full potential in cross border trade between them; here is an attempt to track the growth trajectory of two nations and bring out the potential for further economic cooperation.

### **3. Objectives of the study**

- To study the paradigms of Indo-Japan Trade relations in the context of CEPA
- To study the dynamic relationship between India and Japan
- To bring out the challenges in effective implementation of CEPA agreement, and the impact of recent Tsunami in short and long run on bilateral trade and
- To propose recommendations for enhancing the relationship

### **4. Scope of the Study**

The present study covers various facets of economic cooperation and bilateral trade relations between the countries, their impact and challenges on both partnering countries - India and Japan in the light of recently concluded CEPA between India and Japan.

### **5. Limitations of the study**

The study is partly descriptive and largely conceptual in nature, however the descriptive part largely supported by only secondary data with specific reference to relations between two major Asian Nations- India and Japan.

### **6. Research Methodology**

By collecting information from websites, reports and newspaper articles which trace the growth trajectory of the two countries followed by analysis and recommendations.

## III. RELEVANCE OF CEPA IN THE CONTEXT OF INDO-JAPAN BI-LATERAL RELATIONS

Agreement on Commerce between Japan and India (1958) was one of the remarkable treaties signed by the two nations to strengthen their trade relations. Japan-India Trade Talks on overall bilateral trade and investment began in 1978. Since then many such talks have taken place. Besides, private sector forum such as 'Joint Meetings of the Japan-India Business Cooperation Committee', which holds annual joint meetings, promotes private-sector bilateral cooperation in various economic fields as well as mutual understanding.

India is a first country to which **Japan extended the first Yen Loan and India has been one of the largest recipients of Japan's ODA**. Japan has long been actively providing assistance to India, primarily in the form of **Official Development Assistance loans**, for upgrading of economic infrastructure, alleviation of poverty through public health

and medical care, agricultural and rural development and population and AIDS countermeasures, support for small business and for environmental conservation. Recent ODA packages include Delhi Metro Railway, Yamuna Action Plan and some projects in the Power sector. Japanese PM has agreed to give financial support in build **\$ 5 billion rail corridor between New Delhi and Mumbai and Delhi and Howrah** to speed up infrastructure in India. The corridor will allow multi-modal, high axle load freight trains, with a fully computerized traffic control, to run from one end of the country to another. The project will be under Japan's "Special Terms for Economic Partnership" (STEP) scheme. India's exports increased from 17.8 billion USD in 1991 to 168.7 billion USD in 2008 growing at the compounded rate of 13.73% while imports have increased from 19 billion USD in 1991 to 287.7 billion USD growing at the compounded rate of 16.14% in 2008.

**India stands to gain significantly through this Agreement** and 90 percent of tariff lines are covered while Japan has covered 95 percent of items traded in the list. The Agreement has ensured that the sensitive sectors for India are fully protected including agriculture, fruits, spices, wheat, basmati rice, edible oils, wines and spirits and also certain categories of industrial products such as auto and auto parts.

The Agreement will ensure **access to a highly developed Japanese market for the pharmaceutical sector** and for the first time ever Japan has committed to give the same treatment for Indian generics as their domestic industry. Apart from this, Indian agricultural produce including instant tea, seafood will find their way in the Japanese market. The textile products including readymade garments stand to gain significantly in terms of market access. The Japanese side has also lowered their tariffs for petrochemicals and chemical products, jewellery and cement.

In the services sector too, India has obtained considerable concessions including commitments for providing **greater access for contractual suppliers, professionals such as accountants, researchers, tourist guides and management consultants** who will now be able to provide their services in Japan. Japan has also committed to cover not only computer engineers but whole range of engineering services such as mechanical, electrical, construction, industrial, design engineers and project management specialists. For the first time ever, Japan has agreed to grant additional category of instructors for yoga practitioners, classical musical and dance practitioners, chefs and English language teachers.

The Agreement also envisages the **conclusion of a social security agreement within three years** and the negotiations have commenced in January this year. The negotiations are also on for creating greater openings for Indian nurses and care givers. For bilateral investment, India has committed to the current national policy on foreign investment and this signals the **greater participation of Japanese investors into Indian economy**. Similarly the agreement also covers **intellectual property rights** for the first time and the parameters of our commitments on these are circumscribed by national legislation and agreement in trips there would be significant enhancement in Japanese investment and **technology collaboration** especially in infrastructure and value added manufacturing.

#### **IV. CHRONOLOGY OF INDO-JAPAN TRADE TIES**

- Agreement on Commerce between Japan and India in 1958 to strengthen trade relations.
- Japanese participation in 1958 in the Consortium Meeting of India's creditor countries hosted by the World Bank and embarked on the full-scale assistance to India
- Japan-India Trade Talks on overall bilateral trade and investment began in 1978.
- Since fiscal 1986 – Japan is India's largest aid donor.
- Delicate situation in May 1998 in bilateral relations after India conducted underground nuclear tests
- Japan-India Joint Declaration of December 10, 2001 for further enhancement of bilateral trade
- Declaration of Strategic and Global Partnership in 2006

#### **V. BENEFITS TO INDIA**

- The liberal economic policy of India has enticed Japanese interest of corporations and as a result the private-sector investment in India has seen a dramatic increase and is expected to rise further
- □ The high valued workforce in India has attracted the attention of Japanese companies which are studying India as a global hub for manufacturing where it will be easy to leverage the support of skilled manpower
- The advantages of India's ITES industry have also not gone unnoticed in the global scenario and Japanese companies are toying with the idea of setting up technical support centres in India.
- For Indian investors, investing in Japan is pretty alluring. Japan, the business hub of Asia's growing economies is rated as world's second largest market. Apart from highly skilled human resources, Japan offers innovative technologies.
- Other advantages to work with Japan include world-class information and communication technology (ICT) facility, a highly reliable logistic infrastructure and other investor-friendly facilities.
- Ajay Seth, CFO, Maruti Suzuki India maintained that India-Japan CEPA will help facilitate more global sourcing of auto components and open horizons for new products. Import of auto components will become cheaper.
- Japanese steel industry too expressed optimism over the CEPA. Japan plans to export raw steel sheets to India, where it will be finished for sale to Japanese carmakers and other customers.

- CEPA with Japan will facilitate enhanced equity investment flows both the sides apart from opening up job opportunities for skilled workforce.
- Industry experts feel that CEPA with Japan will set a benchmark for India's negotiations with other developed countries like the US, and EU Nations
- Premal Udani, chairman of Apparel Export promotion Council felt that the CEPA will result in at least 50 per cent jump in exports of apparels from India after it has been made duty free as against 11 per cent prevailing earlier.
- Further, Indian exports which were subject to rigid standards, technical regulations and conformity assessment procedures, particularly in drugs, food, cosmetics agricultural and fishery products etc. will find it easier to enter Japanese markets.

## **VI. STRATEGIC REASONS TO TRADE WITH JAPAN**

- Japanese energy security and trade flows are heavily dependent on sea routes in the Indian Ocean. It is in the interest of India to ensure security of these routes. India is developing capability to constructively cooperate with Japan, which falls within the safety agenda of Japan.
- Strong demographic complementarities between Japan and India make the case strong for India to strengthen alliances with Japan.
- In absolute terms the Japanese population, as predicted, will decline by the end of the decade, while the median age of its population will continue. The issue can well be addressed if India enters into a demographic gift phase of a substantial amount of highly qualified work force.
- The economic space and technological capabilities of Japan can be well complemented by sharing knowledge professionals through alliances with Indian and Japanese firms in the area of biotechnology, pharma, IT and manufacturing areas such as auto design.
- India and Japan can leverage on the support of one another to pursue their goal of becoming permanent members of the Security Council.

**Investment opportunities galore for Japan:** The sectors that attract Japanese investment include transportation (28 percent); telecommunications (18%), fuel (13.5%), chemicals (12.17 percent) and trading (6 percent). So far as infrastructure back-up is concerned, the transportation network is rated as one world's bests.

## **VII. INDIA- JAPAN- THE NATURAL ALLIES**

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 deal also reflects a tie-up between Japan and India in their bids to become permanent members of the United Nations Security Council. Both the countries are strongly committed to an "open and non-discriminatory rule-based multilateral trading system". Japan has identified four major areas of foreign investment, namely, ICT, Biotechnology, Medical Care and Environment. This happy and long standing relationship between the two countries soon acquired a new name, "Samurai and Swami" which emphasized the positive economic and cultural growth and the "policy similarities" linked to existing energy policies, security of sea lanes and opposition to spread of weapons of mass destruction.

**Indian Exports to Japan** includes items like –

- Agricultural products,
- Fresh Fruits and dried fruits,
- Fruit juices and concentrates,
- Vegetables,
- 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.

**Japanese Exports to India -**

- Heavy machines,
- Electronic gadgets,
- Electronic spares,
- Toys,
- Gaming systems,
- Pharmaceutical products,
- Biotechnological products,
- Transport equipments.

### VIII. INDO-JAPAN TRADE IN THE RECENT PAST- AN OVERVIEW

*Table1:* India' Market Share in Japan

Commodity	Market Share during 2008	CGR of Market Share during 1992-2008	Strategic status
Shrimps Prawns Frozen	11.20	-1.42	Losing
Animal/Veg Oil/Fats	3.77	5.87*	Potential
Soya-been Oil Cake	51.10	4.47	Potential
Iron ore	4.81	-5.78*	<b>Losing</b>
Oil Petroleum (except crude)	5.18	25.90**	High Potential
Organic Chemical	1.56	7.61*	High Potential
Cotton Yarn	28.00	12.52*	High Potential
Apparels	1.30	-2.09	Stagnant growth/compete
Diamond Jewellery	37.83	2.59*	Potential
Waste of precious metal	0.22	NC	Entry
Pig iron	15.06	34.44	High Potential
Ferro Chromium	12.61	-4.81**	Compete
Small and Medium Machinery	0.28	15.30*	High Potential

The above table reveals that India has been able to maintain competitive edge in several sectors, while very few areas, such as Ferro chromium and iron ore, posted negative growth in market share during 1992-2008.

**Table2:** Items in top 100 imports of Japan from India in which India is competitive

Description	India's position	UV of Indian Product	Nearest competitor				Unit of Measurement
OPIUM	only country	88,070					K.G.
MUCILAGES AND THICKENERS DERIVED FROM LOCUST BEANS	1	2.01	Pakistan 2.030	Italy 3.210	Switzerland 3,430	Germany 3,84	K.G.
CASTOR OIL AND ITS FRACTIONS NOT CHEMICALLY MODIFIED	1	0.970	United States 3.530	United Kingdom 8.040			MT
OILCAKE AND OTHER SOLID RESIDUES WHETHER OR NOT GROUND	1	168.54	Brazil 178.44	United States 205.75	China 247.58		MT
IRON ORES AND CONCENTRATES OTHER THAN ROASTED IRON	3	22.040	New Zealand 21.350	Australia 21.410	Peru 22.830	Venezuela 24.660	MT
FERRUGINOUS MANGANIFEROUS ORES AND CONCENTRATES WITH MANGANESE CONTENT OF 20% OR MORE	1	53.530	Ghana 73.320	South Africa 85.620	China 90.15		MT
ALUMINIUM ORES AND CONCENTRATES	3	22.480	Indonesia 20.250	Australia 20.490	Malaysia 42.220		MT
CHROMIUM ORES AND CONCENTRATES	2	86.180	South Africa 72.840	Iran 102.330	Myanmar 132.780	Philippines 138.120	MT
TITANIUM ORES AND CONCENTRATES OTHER THAN ILUMENIT	5	522.48	Brazil 257.11	Australia 426.23	Ukraine 477.73	China 514.55	MT
ORGANOSULPHUR COMPOUNDS NESOL	5	4.79	Netherlands 2.600	China 2.860	Belgium 3.960	France 4.350	K.G.
ANTIBIOTICS NESOL	4	320.38	China 25.610	Spain 106.120	Brazil 129.300	Korean Republic 419.940	KG
PEPPERMINT OIL OBTAINED FROM MENTHA ARVENSIS CONTA	3	11.810	North Korea 4.840	Vietnam 11.630	China 14.310	Taiwan 16.28	KG
TRAVELLINGBAGS TOILET BAGS RUCKSACKS SHOPPINGBAGS	2	17.37	Indonesia 14.760	Thailand 25.100	China 26.560	Philippines 34.210	Dozen
YARN OF COMBED WOOL CONTAINING 85 OR MORE BY WEIGHT OF WOOL	3	7.47	Peru 6.700	Taiwan 7.130	Indonesia 7.710	Thailand 7.760	KG
COTTON SINGLE YARN OTHER THAN SEWING THREAD CONTAINING	4	2.070	Korean Republic 1.810	Taiwan 1.870	Uzbekistan 1.980	Pakistan 2.140	KG

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85% OR MORE BY WT. OF COTTON							
COTTON SINGLE YARN OTHER THAN SEWING THREAD CONTAINING 85% OR MORE BY WT. OF COTTON	1	4.450	Pakistan 4.460	Thailand 4.650	Indonesia 4.730		KG
COTTON SINGLE YARN OTHER THAN SEWING THREAD CONTAINING 85% OR MORE BY WT. OF COTTON	2	5.310	Indonesia 5.260	China 5.320	Peru 5.640	Thailand 6.05	KG
COTTON MULTIPLE OR CABLED YARN OTHER THAN SEWING THREAD CONTAINING 85% OR MORE BY WT. OF COTTON	1	5.8	Indonesia 6.210	Peru 6.490	Thailand 6.52	China 6.81	KG
COTTON MULTIPLE OR CABLED YARN OTHER THAN SEWING THREAD	1	7.540	Thailand 8.020				KG
CARPETS AND OTHER TEXTILE FLOOR COVERINGS WOVEN NOT TUFTED	2	4.86	China 4.310	Vietnam 5.570	Indonesia 6.150	Pakistan 6.220	SM
MENS OR BOYS TROUSERS BIB AND BRACE OVERALLS BREECHES & SHORTS	1	5.500	China 5.970	Vietnam 7.320	Thailand 8.750	Indonesia 9.280	Number
WOMENS OR GIRLS DRESSES OF COTTON	1	4.940	China 6.150	Vietnam 6.450	Indonesia 7.780	Thailand 8.780	Number
WOMENS OR GIRLS DRESSES OF ARTIFICIAL FIBRES	2	6.080	Thailand 3.470	Indonesia 7.240	China 8.600	Korean Republic 12.880	Number
WOMENS OR GIRLS SKIRTS AND DIVIDED SKIRTS OF COTTON	1	4.620	China 6.310	Thailand 7.820	Vietnam 8.080	Korean Republic 11.010	Number
MENS OR BOYS SHIRTS OF COTTON	3	7.95	China 5.890	Indonesia 7.290	Vietnam 8.040	Thailand 9.560	Number
WOMENS OR GIRLS BLOUSES SHIRT BLOUSES OPEN SHIRTS AND DRESS SHIRTS	1	4.320	China 5.840	Vietnam 6.620	Korean Republic 7.340	Thailand 8.030	Number
OTHER WOMENS OR GIRLS GARMENTS OF COTTON	1	2.750	China 4.370	Indonesia 5.440	Vietnam 5.900	Thailand 6.810	--
OTHER TABLE LINEN OF COTTON	1	7.600	China 10.360	Indonesia 12.620	Iran 17.690	United States 37.480	Dozen
OTHER FURNISHING ARTICLES EXCLUDING BEDSPREADS OF COTTON	3	41.790	China 8.750	Thailand 39.620	Belgium 46.090	Taiwan 49.510	Dozen
OTHER MADE UP ARTICLES INCLUDING DRESS PATTERNS OF	1	9.530	China 9.590	Taiwan 11.140	Thailand 14.920	Italy 20.550	KG

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COTTON							
NONINDUSTRIAL DIAMONDS OTHER THAN THOSE OF UNWORKED	1	217.12	Hong Kong 281.450	China 701.220	Thailand 702.020	United States 802.080	CT
WORKED PRECIOUS OR SEMIPRECIOUS STONES EXCLUDING DIAMONDS	4	0.66	China 0.020	Brazil 0.050	United States 0.330	Hong Kong 1.060	CT
ARTICLES OF JEWELLERY OF PLATINUM INCLUDING IRIDIUM	4	40.430	China 2.280	Korean Republic 13.780	Italy 32.240	Thailand 56.750	GR
ARTICLES OF JEWELLERY OF GOLD EXCLUDING CHAINS FOR	5	31.43	Korean Republic 8.860	China 16.880	Italy 20.860	United States 24.350	GR
JEWELLERY AND PARTS THEREOF OF PRECIOUS OR SEMIPRECIOUS	5	448.46	China 102.110	Taiwan 104.610	Hong Kong 271.160	Korean Republic 408.750	KG
FERROCHROMIUM CONTAINING BY WEIGHT MORE THAN 4% OF	3	0.47	South Africa 0.410	Turkey 0.440	Russia 0.470	Kazakhstan 0.480	--
FLATROLLED PRODUCTS OF IRON OR NONALLOY STEEL OF A	4	0.21	Romania 0.190	Ukraine, Russia 0.200	China 0.220		KG
UNWROUGHT ALUMINIUM NOT ALLOYED	2	1.34	Venezuela 1.320	Indonesia 1.350	Australia 1.360	Brazil 1.380	KG
PARTS OF PRINTING MACHINERY	2	7.670	China 3.020	Taiwan 8.270	Germany 48.610	United States 55.450	KG
PRIMARY CELLS AND PRIMARY BATTERIESALKALIMAN GANESE	3	0.15	Germany 0.050	Indonesia 0.130	Hong Kong 0.150	Singapore 0.220	--
ITOYORI SURIMI FROZEN	3	1.67	Indonesia 1.150	Myanmar 1.500	United States 1.670		KG
ROCK LOBSTER AND OTHER SEA CRAWFISH PALINURUS SPP	2	11.45	Pakistan 9.510	Madagascar 11.620	Philippines 11.650	Cuba 12.09	KG
SHRIMPS AND PRAWNS FROZEN	5	9.500	China 6.340	Greenland 7.730	Canada 7.770	Vietnam 8.230	KG
CUTTLE FISH SEPIA OFFICINALIS ROSSIA MACROSOMA SEP	5	4	Korean Republic 1.510	United States 1.680	Taiwan 1.720	China 2.830	KG
MONGO IKA INCLUDING FLOURS MEALS AND PELLETS OF MOLLUSES	3	3.940	Yemen 2.640	Korean Republic 3.340	Malaysia 4.030	Vietnam 4.730	KG
OSSEIN AND BONES TREATED WITH ACID	2	1.57	Indonesia 1.520	Canada 1.600			KG
CASHEW NUTS SHELLLED FRESH OR	2	6.410	Indonesia 6.110	Myanmar 6.850	Vietnam 6.940	Singapore 7.120	KG

DRIED							
COFFEE NOT ROASTED NOT DECAFFEINATED	3	1.96	Vietnam 1.470	Indonesia 1.650	China 2.010	Brazil 2.130	KG
PEPPER DRIED NOT PUT UP IN CONTAINERS FOR RETAIL S	3	4.870	Mexico 3.660	Brazil 4.680	Jamaica 4.920	Vietnam 5.260	KG
CARDAMOMS NEITHER CRUSHED NOR GROUND NOT PUT UP IN	5	15.910	Singapore 7.850	Vietnam 8.860	China 9.440	Guatemala 11.900	KG
COTTON SINGLE YARN OTHER THAN SEWING THREAD CONTAINING 85% OR MORE COTTON OF WEIGHT	3	7.180	Peru 6.450	Indonesia 7.060	Thailand 8.610	China 8.670	KG
BEDSPREADS OF COTTON	2	70.840	Iran 52.330	China 87.160	Portugal 248.570	United States 249.700	Dozen

## IX. ROAD BLOCKS:

- **FDI approvals not fully materialized:** India during the period 1991-2004 has been in the order of \$3.2 billion, which was around 4.8 per cent of total Indian approvals for all FDI. But of this, the actual inflow of investment from Japan was around \$1.8 billion. Japanese investments in India are very low despite a number of successful Indo-Japan ventures such as Suzuki-Maruti, Hero-Honda, Toyota-Kirloskar. While the investment environment and physical infrastructure still needs to be a lot more investor friendly, the charges of corruption in the state of leaves a lot to be desired.
- There are fears that the proposed CEPA with India would **destroy local entrepreneurs and industrialists** and pave the way for an Indian monopoly in the local market (concerns raised in Sri Lanka)
- The Japanese investors are hesitant about long time investments in India due to several reasons such as:
  1. Below average power facilities
  2. Poor transport infrastructure
  3. Average telecommunication facilities
  4. High tariffs and regulations

Also, most of Japanese investors feel that ground level hassles like labour laws, taxes, legal and regulatory framework are high in India. They consider procedural delays a major discouraging factor for potential investors.

- The experience of other Asian countries in such agreements with Japan shows that CEPA result in larger imports in short-term, it could lead to inverted duty structure in the longer run. “Government should ensure that inverted duty structure, wherein, the raw material comes at higher price vis-à-vis a finished product, should be taken care of or else it will erode our competitiveness in the country,” Jayant Davar, VP, Automotive Component Manufacturers’ Association said.
- The Agreement is expected to adversely affect the livelihoods of local fishermen. The Agreement allows for Japanese fishing fleets to evade current restrictions on foreign operators, thereby, ignoring the plight of artisanal fishermen or small trawler owners. Secretary of the powerful National Fishworkers Forum (NFF) T. Peter, said the Indo-Japan CEPA poses a further threat since it may allow Japanese fishing fleets to bypass current restrictions on foreign operators that require them to give majority stakes to Indian collaborators in mandatory joint ventures. Japan is also not known for “sustainable” fishing or whaling practices, thus placing the fragile marine eco-system at risk as well.
- The investment chapter in this CEPA reportedly contains provisions allowing Japanese investors to challenge Indian government actions that may negatively impact their investments in India.
- High consumption countries like Japan, are keen to get rid of their waste overseas, since they have almost no land for waste disposal. We seem to be senselessly willing to bear the toxic legacy of their consumption,” said Ravi Agarwal of Toxics Link.
- There are various bottlenecks in the implementation of the pact, like Rules of origin, a 15 per cent withholding tax, implementation process of SPS norms in Japan.
- Exporters also face difficulties in understanding guidelines and regulations, since they are mostly in the Japanese language.

## **X. IMPACT OF RECENT TSUNAMI ON BI-LATERAL TRADE IN THE SHORT AND LONG RUN**

Diverse opinions galore as Tsunami and Earthquake wrecked the Island Nation, India Inc. expressed fears that it would disrupt maritime activities in the region and impact prices of commodities like crude oil globally. “The supply of commodities will be impacted globally as most of the trade takes place through sea,” Assocham Secretary General DS Rawat said. Assocham also apprehends that tsunami extinction might impact Indo-Japan shared trade even though reconstruction work may lead to increased demand for Indian steel. Delivery of goods in transit and exporters payments may be affected. Fears also mount up as several Indian firms in Information Technology zone like TCS, Infosys and Wipro, who have vast participation in Japan, are likely to be affected at least in the short run. The havoc wrought by tsunami in Japan has created panic among local industrialists in Bharuch district, especially in Ankleshwar and Panoli industrial estates in Gujarat, where at least 20 units are engaged in export business only with the Far East nation. There could be slowdown in the investments in the short run, while increased import of Oil by Japan coupled with Gulf crisis may have serious repercussions for oil prices world over.

ICRA, the leading Credit rating Agency in India believes that the Japanese earthquake and tsunami may not adversely affect the Indian automobile sector in the short term, but the impact over medium to long term will have to be seen. These include disruption in supplies of vehicles and vehicle assemblies in India, cost pressures arising from appreciation of the Japanese yen, delays in model launches and in investments by Japanese players in the Indian market. According to ICRA, other difficulties include rising costs of raw materials like steel, rising interest rates - which Indian automotive firms are already grappling with - and increase in customs duty on pre-assembled engine and gearbox or transmission mechanism that takes effect from April 1 this year.

Also, while production at various sites of automotive OEMs and auto-ancillaries in Japan was halted for a few days beginning after the catastrophe, the total damage of outbound shipments of some companies will not have any adverse impact on the auto production in India in the near term, ICRA said. However, if the restoration of production in Japan takes longer, this may lead to shortage of select parts and impact the production levels of those models in India.

Some sections of Industry also endorse the view of ICRA that the natural calamity will not impact the Indo-Japanese bilateral relations in the long-run, but could temporarily disrupt trade. Stating that the loss of life and property is hard to replace, FICCI said, “Testing times are bound to re-invigorate the indomitable resilience of Japanese people.” Meanwhile, Japan businessmen have communicated to their business partners and clients in India that their country was limping back to normal and they were ready for resumption of regular trade, industrial associations said.

## **XI. CONCLUSIONS AND SUGGESTIONS**

Although investments in IT and automobile industries are increasing, thanks to deregulation, further economic reforms and deregulation are required to attract foreign investment into India. It is absolutely necessary for India to take steps to strengthen the competitiveness of Indian products and to improve the comprehensive productivity through revision of the Labour Act, improvement of infrastructure and. While both the countries must explore every possibility to reap optimum gains of economic cooperation, It should culminate in bringing the two strong, democratic and peace living nations of Asia even closer towards more of people-people cooperation, and building a new world order.

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