

RIETI BBL Seminar Handout

“Changing Shades of India-Japan Economic Relationship”

December 16, 2020

Speaker: Professor Saroj K. Mohanty

Changing Shades of India-Japan Economic Relationship

Possibility of Trade and Investment in the GVC Sector

Professor Saroj K. Mohanty
Research & Information System (RIS)
New Delhi

MP-IDSA-RIETI Seminar

16 December 2020

Tokyo

Background

- ❖ Covid-19 disrupted global supply chains and **growth prospects** of the **global economy**
- ❖ Fast emerging countries like **India** received temporary setback in its growth performance in 2020
- ❖ **Japan** suffered downturn in its growth profile- disruption in the global supply Chains – inflicting major challenges to its manufacturing sector
- ❖ India and Japan can **work together** to tie over the present impasse in the trade sector
- ❖ India and Japan are predicted as among **top four countries** of the world by 2035
- ❖ Both countries are tied up with a **CEPA** – further **deepening of trade** and investment to shape the bilateral ties

Scheme of Presentation

- ❖ Turmoil of the global economy with the onset of the COVID-19
- ❖ **Catching up** of the **Indian economy** and the global economic situation in **2035**
- ❖ Growing importance of the **GVC sector** for Japan and India and tapping the existing synergies between them
- ❖ Progress in **bilateral CEPA** between India and Japan
- ❖ New **trade opportunities** in the GVC sector for Japan in India
- ❖ Future **indigenisation** programme in manufacturing in India and technology support from Japan

Implications of COVID-19 on Global Supply Chain

- ❖ **Six major countries** in the world economy engaged with the global supply chains - adversely affected global manufacturing
- ❖ Manufacturing firms across the globe, including Japanese companies- considering **diversification** and de-risking strategies to relocate their manufacturing bases to Asia and moving out of China
- ❖ The **stimulus package** of Japan supporting its firms **to relocate** to safer locations in Asia
- ❖ **Supply Chain Resilience Initiative** – India, Japan & Australia
- ❖ **India adversely affected** by the pandemic but returning fast to normalcy- Indian is also planning to restructure its present trade and manufacturing strategy (CII, 2020)
- ❖ **JETRO** survey of Japanese Companies in India (2020)- With weak domestic demand in India and the global demand, **declining sales**, disruption of supply chains and production and cash flow issues – Discussions with the GoI
- ❖ **Postponement of investment** by Japanese firms in June– Investment sentiments changes in September – India & Japan in the third market (AAGC) (Singh, 2020)

India-Japan Partnership in the Third Market

Asia Africa Growth Corridor (AAGC)

- ❖ The Indo-Japanese initiative of the AAGC focuses on **key priority areas**- connectivity, quality infrastructure, capacity-building, people-to-people cooperation (Pajon & Saint-Mezard, 2018)
- ❖ Objective is to expand **Japanese business interest in Africa** in collaboration with India-Japanese companies in India to use the Indian business networks in Africa- scale eco.
- ❖ **Japanese companies operating in India** have a significant interest in the African market (**JETRO Survey**) - India is a springboard to enter the African market
- ❖ Japan's '**Look West**' strategy- strategic partnership with India (JETRO, 2013)- Japanese companies in India for **African** and **Middle-East** - “repackaging” Under AAGC initiative
- ❖ AAGC concept results from a bottom-up process - **Japanese automakers** in India export to Africa - **Hitachi** Construction Machinery, JV with **Tata** Group to export machines to Africa
- ❖ AAGC initiative is consistent with the **geopolitical vision** of India and Japan –FIOP
- ❖ Convergence in the **development cooperation approach** of both countries (Mohanty et al 2020)
- ❖ **RIS** with **ERIA** and **JETRO** evolved the concept- More through IJ-CEPA (RIS, 2020)

Implications of India-Japan CEPA

- ❖ India and Japan **CEPA in 2011** gave an impetus to the **bilateral relationship** and expanded economic and commercial relations (CII 2020)
- ❖ **Bilateral trade** between India and Japan is **low - expanded** following the signing of the bilateral CEPA in 2011 (Basu, 2014)- **TB** was adverse for India but improved subsequently
- ❖ **CEPA** aimed at **eliminating tariffs** on 90% of Japanese exports to India such as auto parts and electric appliances, and 97% of imports from India including agricultural and fisheries products until 2021- Improved India's MA in pharmaceuticals, agricultural products and T&C
- ❖ **Japan** provided concessions in **TIS** under IJ- CEPA – Increased MA in accounting, R&D, tourism, market research and management consultancy (Chanda and Tokas, 2020)
- ❖ **Lack of enhanced connectivity** and understanding at the level of people and organizations, the macro level benefits of the CEPA in terms of trade, investment, and technology flows, **difficult to realize**
- ❖ Major concerns in the agreement: infrastructure in India and non- tariff barriers in Japan.

India-Japan Bilateral Economic Partnership

- ❖ The economic and **strategic partnership** between India and Japan has progressed remarkably
- ❖ **Japan's role** in India's **infrastructure development** - the Delhi-Mumbai Industrial Corridor, Mumbai Ahmedabad High Speed Rail, Western Dedicated Freight Corridor- Collaboration in other sectors, manufacturing, logistics, etc. (FICCI and SAM, 2020)
- ❖ Opportunities in the **Indian market**: the quality and cost effectiveness of its workforce, strong manufacturing base, large middle income group and continued reforms
- ❖ The **technological complementarity** between the two countries: India's expertise in software skills and Japan's expertise in hardware, technology and R&D
- ❖ Japan's **financial assistance** to India in the infrastructure sector - power, road and highways, shipping, bridges, water supply and sanitation etc.
- ❖ Cooperation in the area of **education** for mutual benefit in knowledge transfer - Japan to benefit in getting skilled persons to compensate for its shrinking workforce

Technology and Manufacturing Sector Cooperation

- ❖ **JBIC ranked** India as the **most desirable place** to do business in long and medium term (between next 3 to 10 years)
- ❖ The technological and economic **pro prowess of Japan** coupled with **India's established** strengths in manufacturing, software, technology and related essential skill- paradigm shift in the supply chains across the globe (FICCI and SAM, 2020)
- ❖ Both the nations have taken **various initiatives**- India-Japan Digital Partnership, Japan Plus information technology corridor in Japan, setting up Japanese Industrial Townships in India
- ❖ The **GoI** has identified potential sectors for **Japanese investment**- infrastructure, railways, food processing, electric vehicles, pharmaceuticals, IT and AI
- ❖ Main attraction- **hardware-software synergy** between both of them
- ❖ **Nuclear energy cooperation** meeting India's energy requirements- Japan is a leader in civilian nuclear technologies

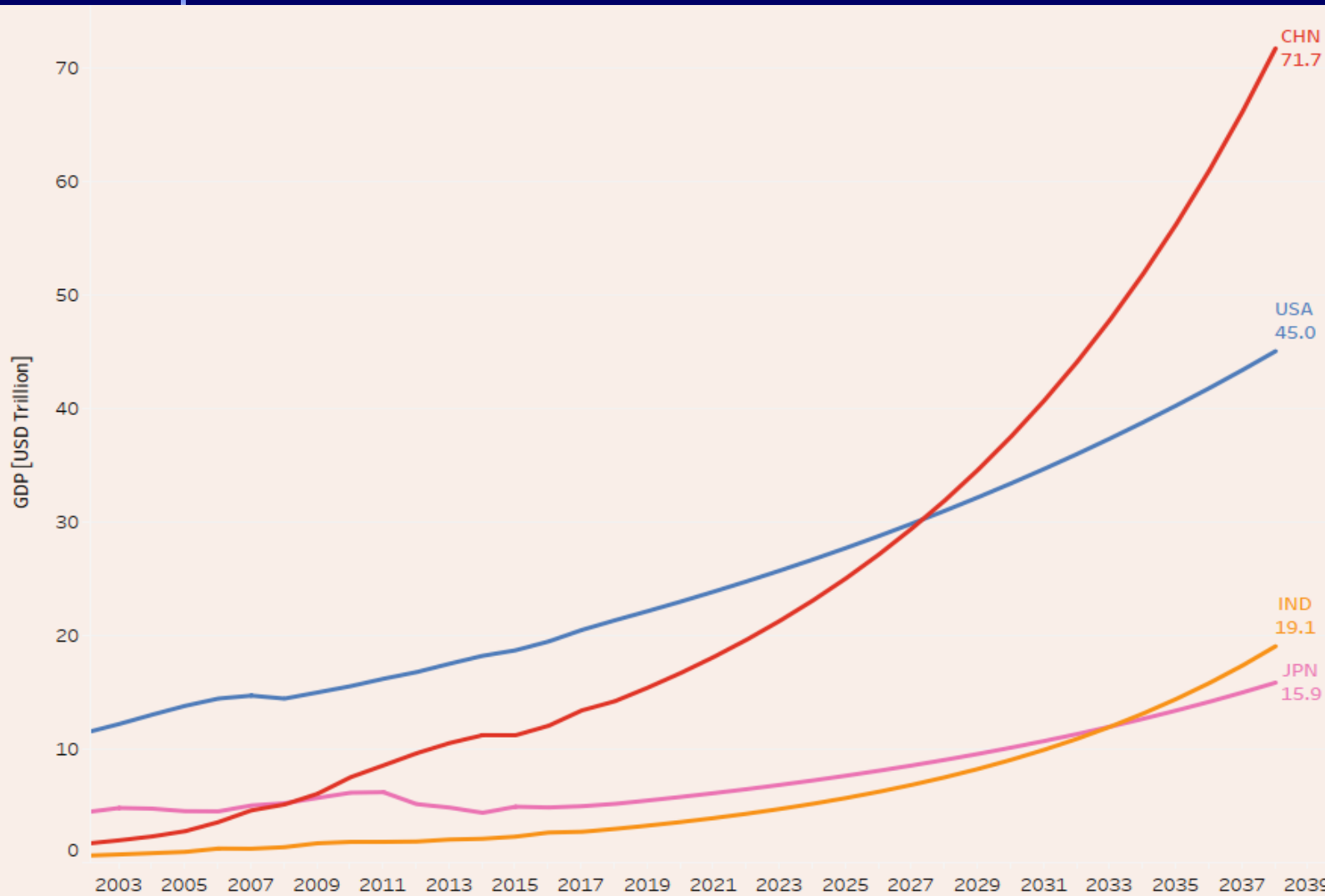
GVC Trade in the context of India-Japan Partnership

- ❖ A supply shock created ‘**supply chain contagion**’, i.e. the supply shock in the hard-hit six will **create supply shocks** in most other nations – even those countries not affected much by the pandemic
- ❖ Supply linkages are very different in different sectors- In the **ICT sector**, the centrality of China but **presence of other hubs** in Japan, Korea and Taiwan- supply disruptions would affect all around the world
- ❖ **Supply interruptions** from three Asian countries account for over 25% of **US** imports, and over 50% of US imports of computer and electronics products (Baldwin & Tomiura 2020) – Supply constraints of these countries to the global market in **Apparel** and **footwear sectors** - lean inventory levels and lack of alternative sources of supply
- ❖ **Automobile sector**, disruption of international supply chains in the - **Nissan** closed a factory temporarily, **Hyundai** to shut all its car plants in Korea, **Fiat-Chrysler** in Europe, **Jaguar Land Rover** in the UK, etc. suffered to a large extent
- ❖ **Healthcare sector**- disruptions in supply chains in the **upstream**, and hoarding and panic buying caused disruptions to the downstream

Rise of India

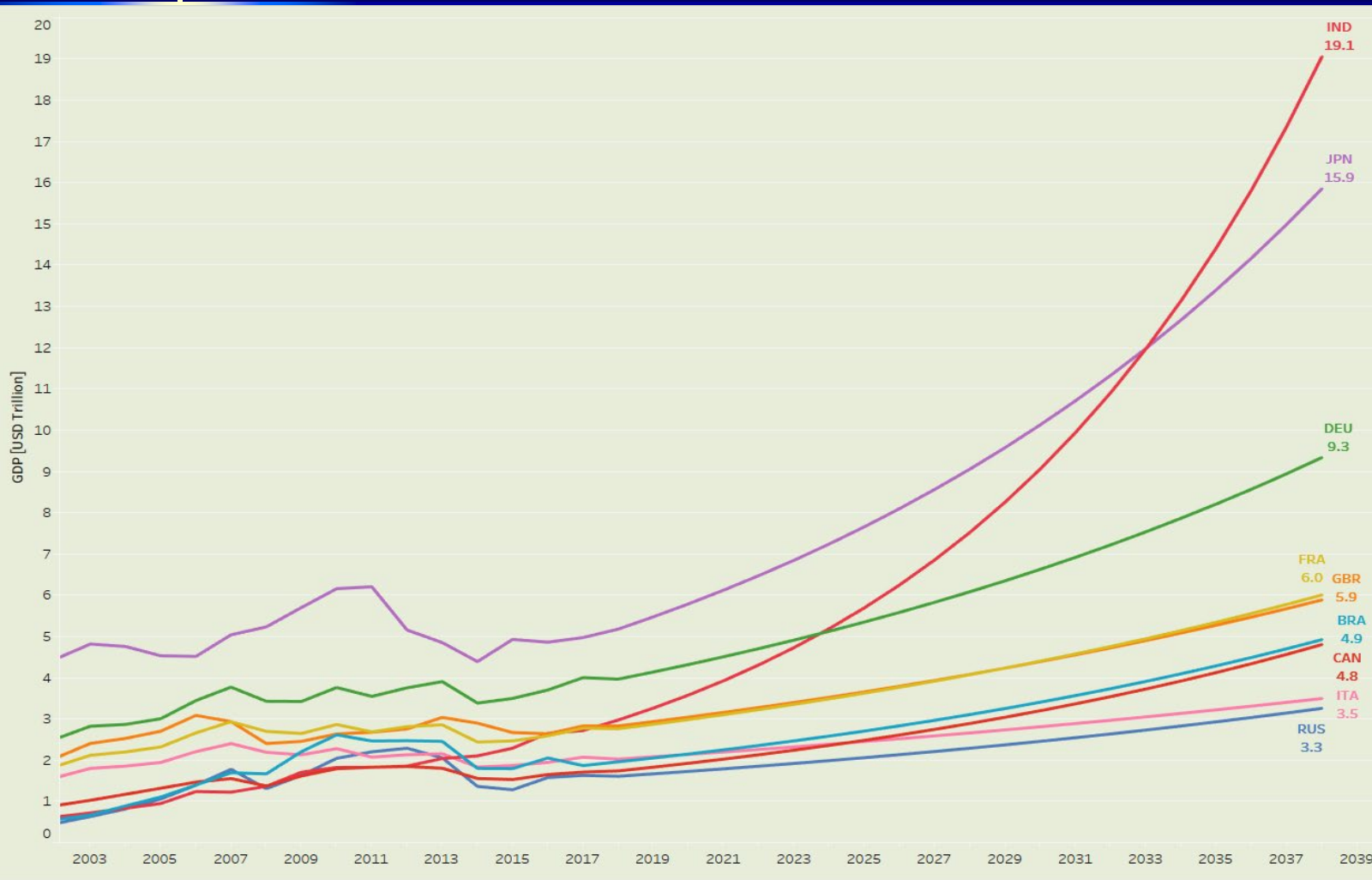
- ❖ **Rapid progress since 1991 – country-wide reforms**
- ❖ **Successful implementation of Reforms – No negative effect – three factors- Government support, Implementation and social sector**
- ❖ **Broke the barriers of ‘Hindu Rate of Growth’ – 3.5% versus 6.6%**
 - ❖ **Buoyancy (2003-7) 7.9%; Recession (2008-18) 6.8%; 1st phase Recession (2008-13) 6.1%**
- ❖ **Prolonged recession – Growth undermined recessionary pressure (2014-18, 7.6%) – impact is felt in 2019**
- ❖ **Strong macroeconomic fundamentals – Inflation, openness, CAD, OFDI**
- ❖ **Strongly into regionalism and multilateralism**

GDP Forecast for the Global Leadership



- **Macro model in RIS-simulation** for 20 years
 - Various **assumptions**
- **Projection** of pattern of GDP, growth, trade, etc.
- **China** as the largest economy (**2029**)
- **India** as the third largest (**2035**)
- **GDP in 2035**- China (\$51.8 Tn), US (\$38.8 Tn), India (\$13.1Tn) and Japan (\$2.7 Tn)

India's GDP verses other Fast Growing Economies in 2003-39



- India and other **fast growing economies**
- Divergence of **GDP gap** between India, Japan and Germany
- Others in **close proximity**
 - Germany, Britain, Brazil, Canada, Italy and Russia
- **Japan and India** caucus could be the new bloc from Asia to maintain **new power balance** in the world

Rising Bilateral Trade with Growing Trade Imbalance

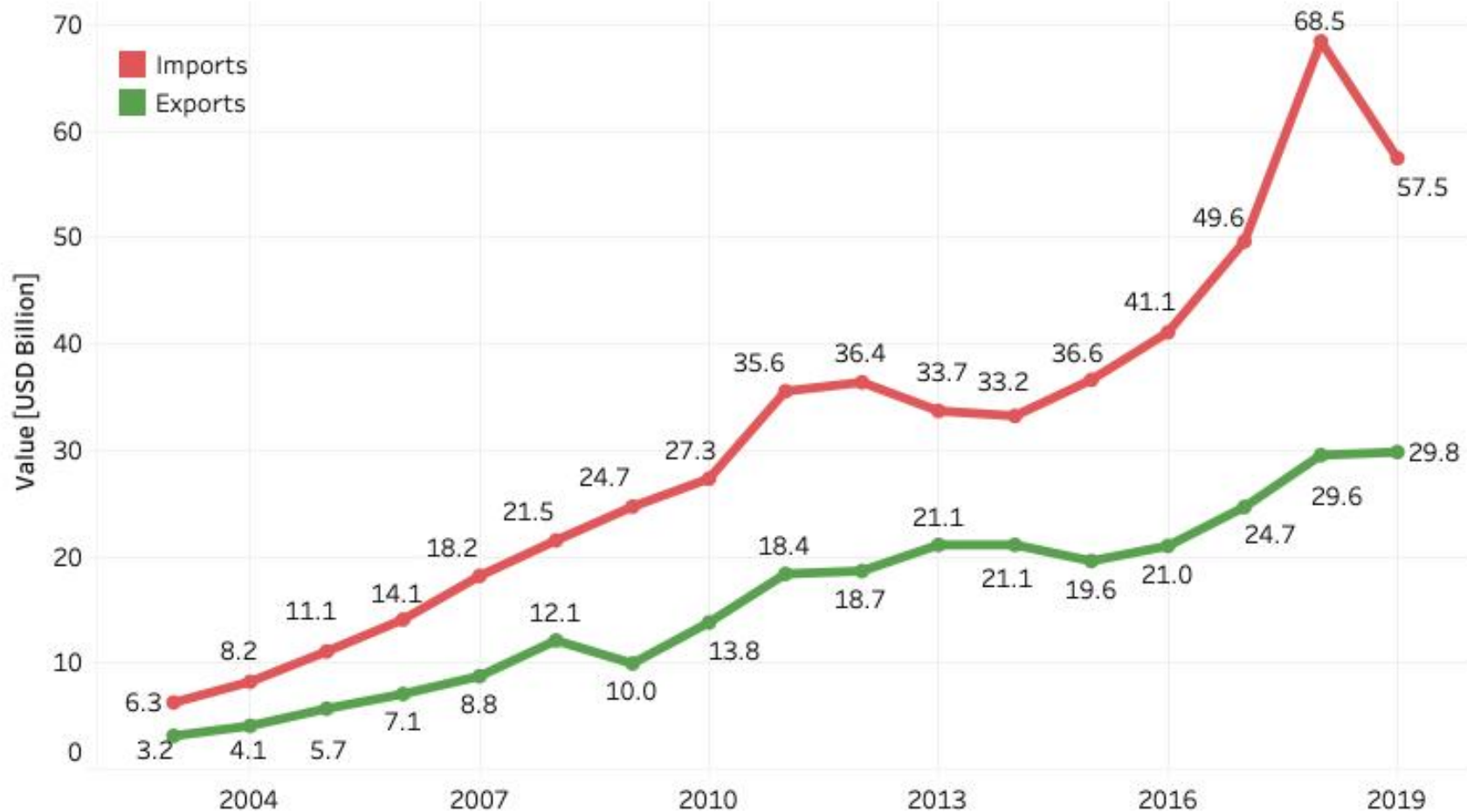
(in \$ Billion)

Year	Imports	Exports	Total Trade	Trade Bal
2003	2.3	1.7	3.9	-0.6
2004	2.9	1.8	4.7	-1.0
2005	3.6	2.4	6.0	-1.1
2006	4.6	2.8	7.4	-1.8
2007	5.7	3.2	9.0	-2.5
2008	7.3	3.6	10.9	-3.7
2009	6.5	3.1	9.6	-3.4
2010	8.0	4.8	12.8	-3.3
2011	10.7	5.6	16.3	-5.1
2012	11.8	6.4	18.1	-5.4
2013	10.3	7.2	17.5	-3.1
2014	9.7	5.6	15.3	-4.0
2015	9.4	4.4	13.8	-4.9
2016	9.6	3.8	13.4	-5.8
2017	10.2	4.5	14.7	-5.7
2018	15.0	4.7	19.8	-10.3
2019	12.6	4.8	17.4	-7.8

- ❖ Following CEPA, **total trade** increased significantly
- ❖ While India's **imports** remained **buoyant**, exports were stagnated
- ❖ **Double digit growth** was reported between **2003** and **2012** and then stated fluctuating until 2019
- ❖ **Trade deficit** curve was systemically faced southwards
- ❖ **Exports covering 38.3%** of total imports in **2019** from **74.9%** in **2003**
- ❖ **Trade deficit to import ratio** has been rising from **25.1%** in 2003 to **61.7%** in 2019

Profile of India's Trade in GVC with the World

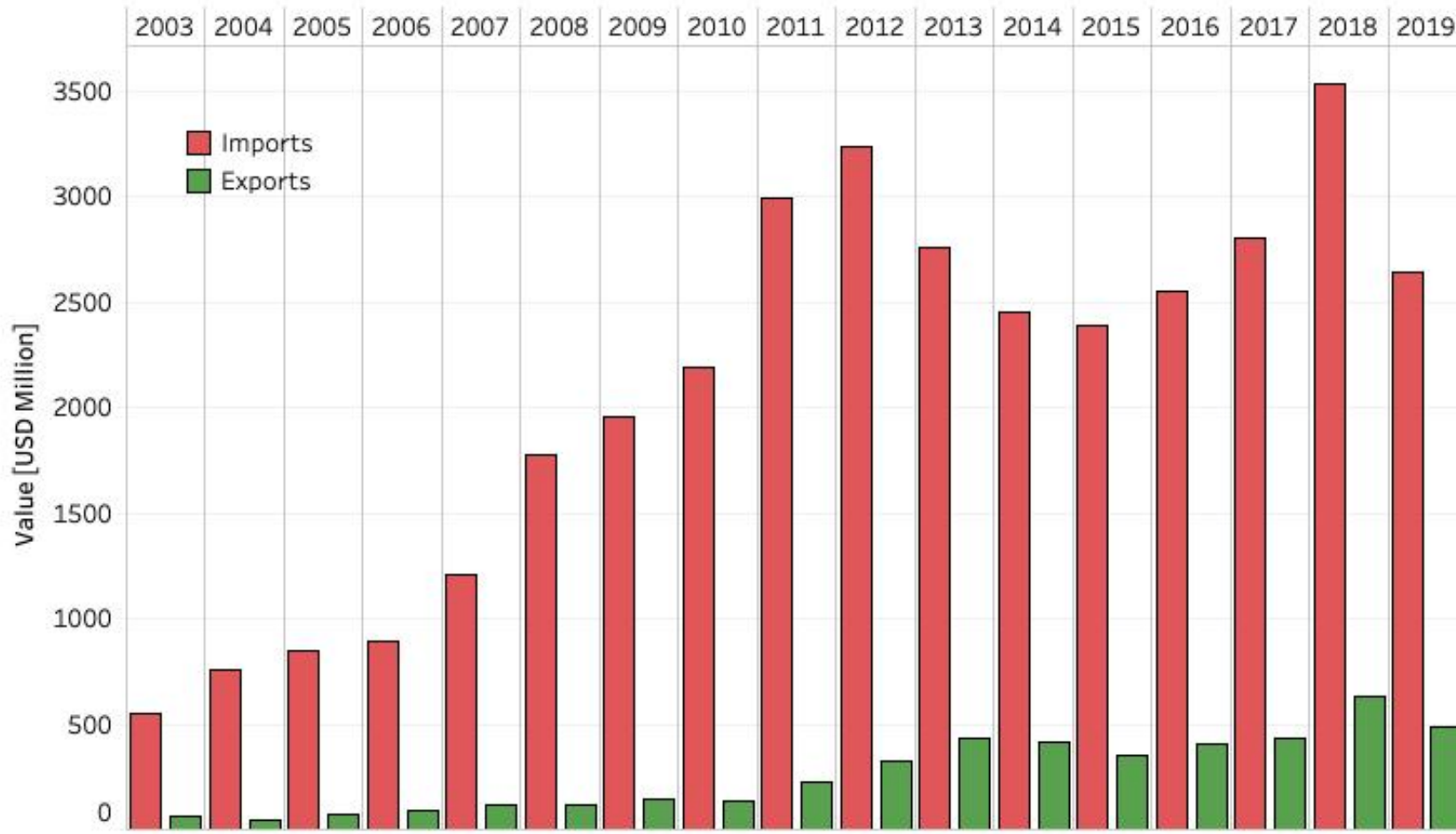
India's Trade in PnC with the World



- ❖ For India, **GVC** has been a **small** trade sector but expanded fast
- ❖ India's **GVC imports** grew **faster** than imports
- ❖ While imports of GVC registered **11 fold** rise during 2003-18, **exports** multiplied by **9 times**
- ❖ **Global trade regime** affected trade performance of the GVC sector
- ❖ In the **second phase** of recession, GVC trade **expanded** much faster with **volatility** than the earlier global trade regime
- ❖ **Sharp decline** in GVC imports registered in **2019**

India's Engagement with Japan in GVC Trade

India's Trade in PnC with Japan



- ❖ India's **bilateral import** of GVC has been **much larger** than exports
- ❖ Bilateral **imports grew unabatedly** during **2003-12**, and started fluctuating in the second phase of recession
- ❖ Like India's global imports of GVC, bilateral **GVC imports declined** significantly in **2019**
- ❖ **India's GVC export** was **small** but grew consistently during buoyancy and also in the first phase of recession- it started growing again after a temporary setback
- ❖ **Large trade deficit** in the sector, which had a lasting impact on the overall trade deficit of India with Japan.

India's Growing Importance of GVC Trade in Japan: Intermediate Sector ❖

(in \$ Million)

Year	Semi-Processed			PnC		
	Imports	Exports	Trade Balance	Imports	Exports	Trade Balance
2003	853.2	718.1	-135.2	552.9	59.5	-493.4
2004	1032.7	816.1	-216.5	756.4	47	-709.4
2005	1238.9	1020.7	-218.2	846.4	74.6	-771.9
2006	1402.2	1066.7	-335.6	890.9	89.6	-801.3
2007	1892.3	1254.7	-637.5	1205.1	112.9	-1092.2
2008	2236.3	1624.4	-611.9	1772	115	-1657
2009	2268.2	1014.3	-1253.9	1956.8	143.3	-1813.6
2010	2998.8	1601.9	-1397	2193.6	132.4	-2061.2
2011	4184.7	1986.3	-2198.4	2990.8	229.2	-2761.5
2012	4528.8	1744.4	-2784.4	3233.9	324.2	-2909.7
2013	4033.8	1987	-2046.8	2755.7	436.2	-2319.5
2014	3942.2	1579.1	-2363.1	2456.3	412	-2044.3
2015	4226.7	1413.7	-2813.1	2392.8	355.3	-2037.5
2016	3650.4	1448.7	-2201.7	2548.1	407.1	-2141
2017	4438.5	1717.7	-2720.7	2801.1	434.9	-2366.2
2018	6984.2	2070.2	-4914	3538	632	-2906
2019	6035.3	2091.6	-3943.7	2644.7	485.6	-2159.1

India's **intermediate imports** grew faster than its exports- imports by **7½** times and exports by **3½** times between 2003 and 2018

In the intermediate sector (**IS**), **PnC segment** was much **smaller** than Semi-processed (**SP**) one, but PnC **picked up** very fast – In exports, **share of PnC in IS** increased from 7.7% (2003) to 23.4% (2018)

Because of robust performance in India's PnC sector, **trade deficit** increased by over **36 times in SP** compared to **6-fold rise** in trade deficit of **PnC** during **2003-18**

The **global trade regime** has an adverse impact on intermediate trade- **robust growth of SP and PnC** trade continued between **2003 and 2018**, but remained volatile in the second phase of recession
Convergence of size of India's bilateral **exports** between **SP and PnC** – in 2004, India's SP exports was much higher (7½ times) than PnC but declined to 3½ times in 2018

India's global GVC imports (\$68.5 bn) and exports (\$29.6 bn) were moderate in PnC in **2018**

Export Competitiveness of India in Japan: GVC 2019- TC

(in \$ Million)

Section	Description	Export Potential	Share (%)
7	Plastics & Articles thereof	80.5	1.1
11	Textile & Textile Articles	42.1	0.6
15	Base Metals & Articles of Base Metal	166.9	2.2
16	Machinery & Mechanical Appliances	4946.3	65.7
17	Vehicles, Aircraft and Vessels	1763.3	23.4
18	Optical, Photograph & Cinematography	510.4	6.8
20	Miscellaneous Manufactured Articles	13.4	0.2
Grand Total		7522.9	100.0

- ❖ India has **export competitiveness** to the extent of **\$7.5 billion** based on Japan's imports in 2019, using **modified trade creation model**
- ❖ Based on **price competitiveness** of India vis-a-vis other suppliers in each product at **6-digit HS** – supply
- ❖ **Largest** participation in the **machinery sector** and other core sectors could be **automobiles** and **precision** instruments
- ❖ **Small contributions** may come from plastics, base metals, T&C and misc. manufactures
- ❖ **Other than the PnC** sector, India has competitiveness in other sectors including processed food, live animals, chemicals, T&C, base metals, etc.

India's Top GVC Competitive Products In the Japanese Market: 2019

(in % in trade potential of India)

HS	Description	Share
841191	Of turbo jets or turbo propellers	9.4
870899	Other, Motor vehicle parts nes	5
851790	Parts, Electrical apparatus for line telephony	4.9
880330	Other parts of aeroplanes or helicopter	4.6
854221	Monolithic integrated circuits, Digital	4.1
847990	Parts, Machines and mechanical appliances having individual functions	3.2
853690	Electrical apparatus for switching or protecting electrical apparatus	3.1
841590	Parts, Others, Of Air Conditioning	3.1
853710	For a voltage not exceeding 1,000 V	3.1
870829	Parts and accessories of bodies for the motor vehicles	3
848180	Taps, cocks, valves and similar appliances for pipes, boilers	2.6
853890	Parts For Electrical Apparatus For Electrical Circuits, Boards, Panels Etc.	2.5
870840	Gear boxes	2.3

- ❖ These are the **top potential GVC export items** for the Japanese market
- ❖ These are mostly in the **sectors** such as **machinery** and mechanical appliances and **automobiles**
- ❖ According to size of competitive products, they are **skewed**
- ❖ The **GVC sectors** may be **nurtured** with India's large manufacturing base
- ❖ There are **281** products where India has price **competitiveness** in the Japanese market

Import Diversification Programme

Market Access for Japan

(in Number at 6-Digit HS)

Sec	Description	Competitive	Others
2	Vegetable Products		1
4	Prepared Foodstuff, Beverages, etc.		1
5	Mineral Products	1	4
6	Products of Chemicals	14	48
7	Plastics & Articles thereof	3	11
8	Raw Hides & Skins, Leather, etc.		2
10	Pulp of wood or of other Fibers	1	2
11	Textile & Textile Articles	9	4
12	Footwear, Headgear and Umbrella		3
13	Articles of Stone, Plaster, Cement	1	7
15	Base Metals & Articles of Base Metal	6	31
16	Machinery & Mechanical Appliances	24	81
17	Vehicles, Aircraft and Vessels	4	9
18	Optical, Photograph & Cinematography		11
20	Miscellaneous Manufactured Articles	2	6
	Total	65	221

- ❖ India is in the process of **market diversification**
- ❖ **Each product** – import worth \$ **50 million or more**
- ❖ These products **mostly in the GVC sectors** and critically important for India's **domestic requirements and exports needs**
- ❖ **Japan competitive** in case of **65** critical products from the total of **286** items

India's Products Indigenisation Programme

(Number of Products)

Sec	Sectors	Products
5	Mineral Products	2
6	Products of Chemicals	43
7	Plastics & Articles thereof	8
8	Raw Hides & Skins, Leather, etc.	2
10	Pulp of wood or of other Fibers	1
11	Textile & Textile Articles	6
12	Footwear, Headgear and Umbrella	3
13	Articles of Stone, Plaster, Cement	8
15	Base Metals & Articles of Base Metal	27
16	Machinery & Mechanical Appliances	78
17	Vehicles, Aircraft and Vessels	5
18	Optical, Photograph & Cinematography	5
20	Miscellaneous Manufactured Articles	5
	Total	193

- ❖ India has **import concentration** in certain import destinations
- ❖ **327 products** are identified for change of import destinations
- ❖ For certain products, **import diversion becomes difficult** despite having **large demand at home**
- ❖ India needs **indigenisation of 193 products** in various sectors
- ❖ Most of them are located in **sectors** like chemicals, base metals and machinery & mechanical appliances.
- ❖ Other products are **thinly spread** in to several sections
- ❖ India may seek support from various countries including **Japan** for supporting the indigenisation process through **technology**

Pattern of India's OFDI in Japan

(in \$ Million)

Sectors	2007	2008	2012	2013	2014	2015	2019
Industry	25.2	28.3		0.1	0.1	24.9	52.1
Construction							
Electricity, Gas and Water					0.0		
Manufacturing	25.2	28.3		0.1	0.1	24.9	52.1
Primary						0.0	
Agriculture and Mining						0.0	
Services	0.4	3.2	9.5	50.3	10.0	1.6	250.2
Community, Social and Personal Services	0.0	0.0		29.5	0.1		2.2
Finance, Insurance and Business Services	0.4	3.2	3.0	16.1	9.1	0.1	27.9
Transport, Storage and Communication Services			1.5	2.8	0.8	1.6	22.5
Wholesale, Retail Trade, Restaurants and Hotels			4.9	1.9			197.6
Grand Total	25.6	31.5	9.5	50.4	10.0	26.5	302.3

- ❖ India's OFDI has been **small** in Japan
- ❖ With the **changed global trade regime** OFDI from India **fluctuated** significantly
- ❖ India's bilateral investment has been **mostly in the services sector** and to a large extent in the **manufacturing** sector
- ❖ In the **services sector**, it was mostly in the financial services, community services, transportation and recently in the wholesale trade sector
- ❖ **Japanese IFDI** in India has been **large** but **fluctuating**- during 2017-19, the trend has been upward rising

Way Forward

- ❖ Covid-19 has adversely affected global supply chain and urgent need for **alternative sources of supply**
- ❖ Japan's **supply chain** is also disrupted- **India** could be an **alternative source of supply** in the short and medium term
- ❖ India-Japan **CEPA** has been **rewarding** despite large trade imbalances for India- Should **strengthen** it further
- ❖ India would be the **3rd largest** economy by **2035**- India-Japan economic ties should focus India as an alternative source of global supply chain
- ❖ **GVC sector** is **small** but **growing** fast in India
- ❖ India has **competitiveness in large number** of GVC products- more competitive than certain ASEAN economies- India need more **MA in Japan in GVC**
- ❖ India is in **search of new suppliers** for large number of manufacturing products – mostly in the GVC sector
- ❖ India requires **technology support** in its pursuit of **indigenising** some of the industries in the manufacturing sector
- ❖ **Bilateral investment** should expand further to strengthen India-Japan **CEPA**

Thank you