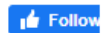


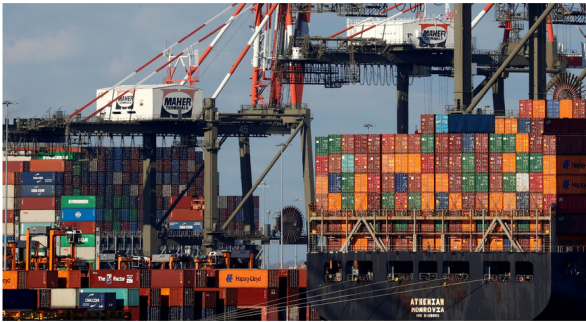
# Despite Economic Agreement, India Fails To Utilise Japanese Market



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*Japan is the only country among the G-7 group with which India has a trade agreement and yet the share of its exports in Japan's merchandise imports is hardly 0.85 per cent*

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In recent times, Prime Minister [Narendra Modi](#) and his team, which includes Commerce Minister Piyush Goyal, are putting their best foot forward to boost free trade agreements (FTAs) with several countries—whether it's with the European Union or the United Kingdom.

Goyal recently said that many countries across the globe are keen on fast-tracking the free trade agreements (FTAs) with India now. "India is now not just talking but negotiating with Canada, the European Free Trade Association (EFTA), the United Kingdom (UK), and the European Union (EU) over FTAs," he added.

On India- EU FTA negotiation, he stated that it is progressing well and Trade and Technology Council (TTC) is helpful as it is supplementing the FTA process. However, amid the enthusiasm for FTAs, Japan is among the least explored markets by Indian merchandise exporters among G-7 countries as measured by the share of India's exports in the total import of these countries, as per a report by the World Trade Center Mumbai.

Notably, Japan is the only country among the G-7 group with which India has a trade agreement and yet the share of its exports in Japan's merchandise imports is hardly 0.85 per cent compared to 1.35 per cent for Italy, 0.87 per cent for France, 1.50 per cent for the UK and 2.47 per cent for the USA.

Talking about if India has failed to leverage the trade agreement with Japan, Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai said, "Yes. India could not utilise the trade agreement. Japan gave duty-free market access to 2,218 products (at HS six-digit level) under this trade agreement to India. But out of this, India could not export 1.142 goods because of non-tariff barriers and stiff competition from ASEAN countries and China."

India's exports to Japan are declining for the last five to six years, except for 2021-22. It was USD 4.73 billion in 2017-18, which decreased to USD 4.43 billion in 2020-21. In 2021-22, India's exports to Japan increased significantly to USD 6.17 billion. However, In 2022-23, it again declined to USD 5.46 billion.

The country's top ten major exports to Japan include organic chemicals, fish and crustaceans, nuclear reactors, vehicles other than railway rolling stock, natural pearls, mineral oils and aluminium articles. These exports constitute around 70 per cent, i.e., USD 3.82 billion, of India's total exports to Japan, which amounted to USD 5.46 billion in 2022-23.

Also, imports are consistently higher than exports. India's imports from Japan were USD 12.77 billion in 2017-18 which increased to USD 16.49 billion in 2022-23. India's trade deficit with Japan is on the rise for the last few years.

"Though Japan is least explored by India among G-7 countries, India's presidency of G-20 and Japan being president of G-7 countries opens numerous areas of cooperation between the two. Working together, they can amplify their influence at the global level and can work for the betterment of the Global South. Japan is taking its investments towards India," said Saket Dalmia, President, PHD Chamber of Commerce and Industry.

Japan's FDI inflows to India are expected to increase. Investments should be encouraged in new promising areas. In addition, defence and strategic partnerships are of paramount importance for enhancing trade ties between the two countries.

"Though trade volumes between the two have not increased at a fast pace as expected, the cooperation in new areas can lead to a rise in trade volume through the exploration of new and promising areas in sustainable, strategic, technological and trade partnerships," Dalmia added.

### **Accelerating trade**

Experts believe that Japan is India's 'partner in progress' and the two countries have outstanding bilateral relations. Japan has been an ideal partner for India's infrastructure growth story. There's immense potential for India to look at exports in agri and food products to Japan.

"The two economies may seek to broaden ties in the agrarian sector. Both governments are working towards a mutually beneficial trade relationship with the government of India emphasising the 'Make in India' campaign, the PLI scheme and the diversification of the trade basket, etc., to strengthen its manufacturing sector and make it more competitive. This will aid in increasing its contribution to exports," said Dinesh Joshi, Chairman, International Business Committee, IMC Chamber of Commerce and Industry.

If the Japanese market for Indian exports has not been "explored" India must look for the reasons behind this, experts noted. Despite Japan being the world's third-largest economy at over USD 5 trillion, it accounts for just about 1.5 per cent of India's overall exports amounting to over USD 6 billion.

"The broad product-wise composition of Japanese imports reveals why this might be so. Japan's chief imports are petrol and petroleum products as well as coal briquettes. Its most prominent import of a manufactured product is integrated circuits. India's largest export to Japan is organic chemicals, which are, at the same time, also imported from Japan of almost equal value," said Sashi Shiv Ramkrishna, Sr Adjunct Professor, NMIMS, Bangalore.

Ramkrishna added that the one area where Japan is behind the curve may be in the area of fintech. India, with strides made by it in the area of digital payment technologies, could find substantial opportunities with the Japanese banking and financial sector. Here, greater collaboration between India and Japan through startups has already been promoted by the India-Japan digital partnership (IJDP) and startup hub.

### **The big push**

Under the comprehensive economic partnership agreement (CEPA), Japan eliminated duty on 1,962 goods (at six-digit HS code) for India in 2011. Articles related to clothing and apparel constituted more than 37 per cent of these tariff lines followed by chemicals and pharmaceuticals which accounted for 27 per cent of the total tariff line under the initial phases of the agreement.

By 2021, the number of goods eligible for nil import duty in Japan under this agreement grew to 2,218 (at HS code six digit) with the articles related to clothing and apparel (34.7 per cent), chemicals and pharmaceuticals (23.4 per cent) and agriculture, food processing and allied sector (14.3 per cent) accounting for 72.4 per cent of the total tariff lines.

WTC Mumbai report added that even though it has been a decade since the India-Japan FTA came into force, merchandise trade between the two countries has not seen much traction. India's export to Japan has just risen 8.7 per cent during the decade.

However, for commodities covered under the FTA, India's exports to Japan have declined 42.7 per cent led by a 94 per cent contraction in shipment of petroleum products covered under the FTA from USD 1.8 billion to USD 114.3 million.

Theoretically, under the current trade agreement, India has an untapped export potential of USD 119 billion to Japan. This is the excess import of Japan from other countries over what is supplied by India to Japan. However, more realistically India's true untapped export potential may be computed at around USD 20.5 billion for 474 commodities (at HS code six digit) which India may explore in the short to medium term.

For these commodities, India has a proven global competitiveness with more than five per cent global share for each of these 474 commodities. The textile, clothing and apparel sectors have the highest untapped export potential of USD 7.2 billion, followed by chemicals and pharmaceuticals with USD 4.6 billion and energy sectors with USD 3.4 billion untapped export potential.

“There are three major reasons for the low share of India in the Japanese market. Indian exporters have traditionally focused on Western markets such as USA and EU, rather than far Eastern markets such as Japan. Compliance procedure is generally stringent in the Japanese market and hence Indian exporters find it difficult to enter this market. India faces stiff competition from ASEAN countries and China in most of the goods, where we have export potential,” said Kalantri.

Trade cooperation in new areas, expanding the coverage of the India-Japan CEPA and encouraging Japan’s FDI inflows in new areas are expected to help to further leverage the trade potential between the two nations.

“Since India has adequately developed its infrastructure and Japan leads in technological developments, there is large scope for cooperation in high technology areas such as semiconductors, electronic equipment manufacturing, military hardware, digital public infrastructure and sustainable new technologies in order to achieve India’s decarbonisation and sustainable goals,” added Dalmia.