INDIA-JAPAN CEPA
An Appraisal

RIS
Research and Information System
for Developing Countries
विकासशील देशों की अनुसंधान एवं सूचना प्रणाली

AIC
ASEAN-India Centre at RIS

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AN APPRAISAL

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by
V.S. Seshadri

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Foreword

Ambassador Shyam Saran
Chairman, RIS & AIC

It is now five years since the India-Japan Comprehensive Economic Partnership Agreement (CEPA) was signed in February 2011. As its name suggests, it is a comprehensive agreement covering trade in goods, trade in services, investment and economic cooperation. It is also fairly deep in terms of levels of liberalisation, at least in comparison with many FTAs signed by India.

There is, however, a general perception widely shared in India that the FTAs signed by India have not brought commensurate benefits. The Foreign Trade Policy statement of the Government of India for 2015-20 specifically mentions that the projected gains from the CEPA with Japan and Korea have not materialised to the extent expected.

This report seeks to make a critical appraisal of the progress made in the implementation of the CEPA with Japan and assesses to what extent the two sides have benefitted. It has highlighted the available opportunities and sectors for further improvement and consolidation. It also flags shortcomings and the efforts needed to secure full implementation of CEPA. Several recommendations have also been made towards how the trade, investment and the cooperation provisions of CEPA can be used to drive one another.

India and Japan have now entered into a 'Special Strategic Partnership' and the bilateral relations span a wide variety of areas. The two sides have also repeatedly emphasised the importance of CEPA in further promoting the economic partnership between them. In the context of the leadership of the two countries also developing a close personal rapport and sharing a commitment to strengthen ties, it is hoped that the appraisal and the recommendations in this report will be found useful in moving forward.

This is also the second such report brought out by the RIS and the ASEAN-India Centre at RIS with Dr. V.S. Seshadri as the lead investigator. The first report was on India-Korea CEPA and was published in September 2015. These reports come at a time when

India is moving ahead with its negotiations to conclude more FTAs including the Regional Comprehensive Economic Partnership (RCEP) agreement. This is also a time when there is a surge worldwide towards concluding more FTAs and plurilateral agreements. It is hoped that these reports will provide some insights and useful tips to Indian negotiators in this context as well.

These reports form a part of the study project sponsored by the Ministry of External Affairs on 'Exploring Closer Economic Cooperation with East and South East Asia' that is being implemented by the ASEAN-India Centre at RIS. An earlier report on 'India and APEC: An appraisal' also formed part of the same project. Feedback on these reports including suggestions,if any, for future work would be most welcome.

Shyam Saran

Preface

Sachin Chaturvedi
Director General, RIS

The Ministry of External Affairs, Government of India has assigned RIS and ASEAN-India Centre at RIS the task of exploring how to strengthen the economic relations between India and East and South Asia. This assumes significance in view of the implementation of four Comprehensive Economic Partnership Agreements (CEPAs) with Singapore, Malaysia, Korea and Japan and as well as FTA with ASEAN as a whole. As part of this research programme, earlier RIS and ASEAN-India Centre at RIS had brought the report entitled "India-Korea CEPA: An Appraisal of Process."

The India-Japan Comprehensive Economic Partnership Agreement (CEPA) became effective in August 2011. This is the most comprehensive free trade agreement that India has entered into with any country. This agreement is all the more important in view of the India-Japan entering into a resurgent phase of strengthening mutual economic ties. The new initiatives like 'Make in India', 'Skill India', 'Digital India', and 'Start up India' recently launched by India and new plans for investment by Japanese companies, 'Japan Plus', etc., have also provided added impetus to the process of promoting trade and investment between Japan and India.

However, there are contrary observations that FTAs signed by India have not yielded the desired results. Likewise, it is also felt that India has not benefitted from CEPA with Japan on expected lines. Therefore, it has become necessary to review critically the implementation of the agreement and suggest way forward for exploiting its full potential. This Report entitled "India-Japan CEPA: An Appraisal" is an attempt in this direction. It reviews critically issues, among others, the overall foreign trade performance in the two economies; bilateral trade in goods under CEPA; trade in services between India and Japan; investment and economic cooperation under India-Japan CEPA, etc. It also makes a number of suggestions and recommendations regarding the future course of action for achieving the desired objectives of Japan-India CEPA.

We are grateful to Dr. V. S. Seshadri, Vice-Chairman, RIS who is also the lead investigator for this and the earlier report on India-Korea CEPA. We are sure the policymakers, practitioners and stakeholders would find this Report a valuable contribution from RIS and ASEAN-India Centre at RIS for deepening economic partnership between Japan and India.

Sachin Chaturvedi

Acknowledgements

This study was undertaken under the overall supervision of Ambassador Shyam Saran, Chairman of RIS and the ASEAN-India Centre at RIS.The lead investigator was Dr. V. S. Seshadri, Vice Chairman, RIS who also authored the report. Research support for the study was provided by Ms. Aditi Gupta, Consultant, RIS.

Research inputs for the study were obtained, apart from desk research and available literature and data, through consultations held with Department of Commerce, Department of Industrial Policy and Promotion and other government departments in India, export promotion bodies, industry associations, representatives of companies, experts as also some of the former Ambassadors of India to Japan. Meetings were also held with several Japanese trade and investment agencies represented in India. The lead investigator also visited Japan and met with regulatory trade and industry bodies, concerned ministries, trade and industry associations and representatives of Indian businesses in Japan. The cooperation received from all is gratefully acknowledged although the responsibility for shortcomings, if any, in the report are attributable only to the author.

Special thanks are due to the Embassy of India, Tokyo, and to Ambassador Deepa Wadhwa in particular, without whose cooperation the many meetings in Tokyo may not have been possible. The author also received assistance from the offices of JETRO both in India and in Japan in obtaining some relevant data.

The study under the aegis of ASEAN-India Centre (AIC) at RIS was supported by a grant from the Ministry of External Affairs of the Government of India which is gratefully acknowledged.

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List of Abbreviations

ACMA	:	Automotive Component Manufacturers Association of India
AEPC	:	Apparel Export Promotion Council
APEC	:	Asia Pacific Economic Cooperation
APEDA	:	Agricultural and Processed Food Products Export Development Authority
API	:	Active Pharmaceutical Ingredients
ASEAN	:	Association of South East Asian Nations
BOP	:	Balance of Payment
CBIC	:	Chennai-Bengaluru Industrial Corridor
CEPA	:	Comprehensive Economic Partnership Agreement
CoO	:	Certificate of Origin
DGCIS	:	Directorate General of Commercial Intelligence and Statistics
DIPP	:	Department of Industrial Policy and Promotion
DMDFC	:	Delhi-Mumbai Dedicated Freight Corridor
DMIC	:	Delhi-Mumbai Industrial Corridor
ECB	:	External Commercial Borrowing
EIC	:	Export Inspection Council
EIU	:	Economist Intelligence Unit
EPA	:	Economic Partnership Agreement
FDA	:	Food and Drug Administration
FDI	:	Foreign Direct Investment
FNLIA	:	Foreign Non Life Insurance Agencies
FSA	:	Financial Services Agency
FTA	:	Foreign Trade Agreement
GDP	:	Gross Domestic Product
GIAJ	:	General Insurance Association of Japan
GJEPC	:	Gem and Jewellery Export Promotion Council
GSP	:	Generalised System of Preference
ICT	:	Information and Communications Technology
IFFCO	:	Indian Farmers Fertiliser Co-operative
IIT	:	Indian Institute of Technology
IMF	:	International Monetary Fund
IMTMA	:	Indian Machine Tool Manufacturers' Association
IoT	:	Internet of Things
IT	:	Information Technology
ITPO	:	Indian Trade Promotion Organisation
JAS	:	Japan Agricultural Standards
JBIC	:	Japan Bank for International Cooperation
JCCII	:	Japanese Chamber of Commerce and Industry in India
JETRO	:	Japan External Trade Organistaion
JICA	:	Japan International Cooperation Agency

JSG	:	Joint Study Group
JTIA	:	Japan Textiles Importers Association
JV	:	Joint Venture
LDCs	:	Least Developed Countries
M&A	:	Mergers and Acquisitions
METI	:	Ministry of Economy, Trade and Industry of Japan
MFN	:	Most Favoured Nation
MHI	:	Ministry of Heavy Industry
MIP	:	Minimum Import Price
MoU	:	Memorandum of Understanding
MPEDA	:	Marine Products Export Development Authority
MUV	:	Multi Utility Vehicle
NASSCOM	:	National Association of Software and Services Companies
NATRIP	:	National Automotive Testing and Research Infrastructure Project
NEXI	:	Nippon Export and Investment Insurance
NHI	:	National Health Insurance
NIMZ	:	National Investment and Manufacturing Zone
NITI	:	National Institution for Transforming India
ODA	:	Official Development Assistance
OECD	:	Organisation for Economic Cooperation and Development
OFDI	:	Outward Foreign Direct Investment
PHARMEXCIL	:	Pharmaceuticals Export Promotion Council of India
PMDA	:	Pharmaceuticals and Medical Devices Agency of Japan
R&D	:	Research and Development
RCEP	:	Regional Comprehensive Economic Partnership
SEZ	:	Special Economic Zone
SIAM	:	Society of Indian Automobile Manufacturers
SMEs	:	Small and Medium Enterprises
SPS	:	Sanitary and Phytosanitary Measures
TEXPROCIL	:	Cotton Textiles Export Promotion Council of India
TPP	:	Trans-Pacific Partnership
TRIMs	:	Trade Related Investment Measures
TSPP	:	Tetra Sodium Pyro Phosphate
VAT	:	Value Added Tax
WHO	:	World Health Organisation
WTO	:	World Trade Organisation

Executive Summary

1. The India-Japan Comprehensive Economic Partnership Agreement (CEPA) came into effect on 1st August 2011 and is the most comprehensive free trade agreement that India has entered into with any country. It consists of agreed measures on liberalisation of trade in goods, trade in services and investment and an agreement to implement cooperation in a number of identified areas.

2. Japan and India are the second and the third largest economies in Asia. The CEPA between them was founded on the basis of complementarities of their economies. More recent developments and new policy initiatives in both the countries have only further reinforced this basis. However, even after four years of CEPA, their trade and economic engagement is still below potential. In merchandise trade for example there has been no significant change in market shares. Japan's share in India's imports has been around 2.3 per cent and India's share in Japan's imports has also remained small at around 0.80 per cent.

3. The utilisation of CEPA for trade in goods is, however, steadily increasing in both directions. While CEPA concessions are not relevant for about 75 per cent of India's exports to Japan, since duties on them are zero even on MFN basis, India has benefitted from CEPA concessions towards increasing exports in the seafood, pharma, garments, leather, dyes and pigments and a few other sectors and products.

4. Most of the CEPA tariff reductions have already kicked in, in respect of India. Only a small percentage of tariff lines will have duties eliminated on them in future. More export gains can, however, accrue to India if implementation issues are actively followed up in the Joint Committee and other Sub-Committees of CEPA on issues such as SPS and other standards, greater regulatory cooperation in the pharma sector, rules of origin, customs concordance and more favourable treatment for some tariff lines and these are outlined in the report. The Report also highlights export opportunities if competitive capacities can come up in the garments, value added seafood, agriculture, generic pharmaceuticals, set jewellery and auto products sectors on all of which India has intrinsic strengths. Annex 1 to the Report carries a detailed analysis of India's exports of top 20 HS chapters in the post-CEPA period.

5. Japan's utilisation has also been rising judging from the number of certificates of origin issued annually by the authorised agency from Japan. While there has been no dramatic growth overall in Japan's exports to India barring an initial surge, a sharp rise in a few items like basic steel (on several steel items CEPA duties will reduce to zero in 2016) and copper wires have caused concern. On steel, India has in recent months imposed a temporary safeguard measure and a minimum import price requirement to ward of cheap imports not only from Japan but also from China, Korea and other supplier countries.

6. It would, in any case, be a prudent measure to notify the bilateral temporary safeguard measure that is provided for in Article 23 of CEPA so that it is available for use when necessary. Instances of inverted duty structure could also be suitably rectified one of which has been pointed out in the report.

7. The bulk of imports from Japan into India is in areas like machinery, electrical and electronic goods, auto products, ships and vessels and precision instruments. Imports of plastics also grew significantly. Most of these items are in the B-10 tariff reduction category. Even as collectively their imports have not shown rapid surge, trade in some of the items could see more momentum as duties get progressively reduced to zero by 2021. Furthermore, with increase in Japanese ODA for several projects including for the Shinkansen bullet train project and expected further FDI from Japan in the coming years, imports from Japan could see a rise that can widen the trade deficit. Annex 2 to the Report carries a detailed analysis of imports from Japan in the top 20 HS sectors and how they have performed in response to CEPA tariff reductions.

8. Despite their high ranking globally in services trade, bilateral exchanges between India and Japan in this important sector remain very subdued. India's exports of IT and IT enabled services to Japan account for less than 1 per cent of Japan's IT services market and India also has an overall trade deficit in services with Japan unlike the surplus position it has with many developed countries. There is, however, evidence of some momentum with Japan almost doubling its services imports from India in the last two years, that is also resulting in narrowing of the deficit. The liberalised provisions under CEPA, particularly on movement of professionals, could be a contributing factor. Indian IT firms are also devising Japan specific market strategies that address aspects relating to language, culture and local business practices.

9. It would be very important to ensure immediate ratification of the Totalisation Agreement signed by the two governments in December 2012. The CEPA Sub-committee on services could also take up several implementation issues including those relating to expeditious issue of visas for IT and other service providers, clarification of 'technology services' in the bilateral double taxation agreement, regulatory issues relating to financial services, particularly insurance and progress on the built in agenda in CEPA including in respect of nurses and healthcare workers and mutual recognition agreements among professional bodies.

10. It may also be the right time for mounting a sustained India IT brand promotion in Japan. Launch of a public private partnership in Internet of Things (IoT) and Big Data could be one initiative. The new mechanism 'Japan-India IoT initiative' in the 2015 Joint Statement to promote investment in IoT related area from

India to Japan should be well formulated and jointly supported so that it attracts the necessary private sector support in Japan. Setting up joint IT research centres has also been mentioned in the Joint Statement. Establishing an international IT University in Japan with partnership of Indian and Japanese companies could also be considered for making available a steady pool of talent which can also help in widening cooperation between the two countries.

11. The CEPA chapter on Investment has no additional market opening measure other than each country committing to its extant policy. It does, however, provide greater stability and security of investment and when coupled with the accompanying measures for liberalised trade in goods and services in CEPA, presents an environment conducive to investment growth. Japanese FDI trends in India present a mixed picture post CEPA with significant fresh investment inflows but with also two large investments, Daiichi Sankyo's investment in Ranbaxy and NTT Docomo's investment in TATA Teleservices, seeking to exit their investments. However, the number of Japanese companies in India has risen from 812 in 2011 to 1209 in 2014 and Japan is also the fourth largest investor country in India. Annex 3 to the Report contains an overview regarding bilateral investment flows in both directions.

12. According to a JETRO survey in 2014 India was the most favoured destination among Japanese companies for investment both in the medium and in the long term. The policy changes in India and the introduction of initiatives like 'Make in India', 'Skill India', 'Digital India' and 'Start up India' are creating added interest and many Japanese companies have announced new plans for investment. The large trade and industry conducive infrastructure that Japan is collaborating with India to build, including through the corridor approach and the initiative to set up several Japan industrial townships, could also be a pull factor. The 'Japan Plus' arrangement to fast track investments from Japan and the regular engagement between the Japan Chamber of Commerce and Industry in India and DIPP of the government are positive features.

13. India's share in Japan's total FDI stock worldwide is, however, only 1.14 per cent as per JETRO statistics. China (8.69 per cent) and smaller ASEAN economies like Thailand (4.36 per cent), Singapore (3.80 per cent), and Indonesia (1.97 per cent) have far higher shares. Intra-firm trade involving Japanese affiliates in these countries with their parent companies in Japan also account for higher level foreign trade between Japan and these countries. Will CEPA be able to act as a catalyst in promoting more investments from Japan that also generate more trade not only between India and third countries but also vis-a-vis Japan?

14. CEPA has a separate Chapter 13 providing for cooperation between India and Japan in areas like trade and investment promotion, SMEs, infrastructure, textiles, health, energy, ICT and metallurgy. The focus of cooperation in these areas is to be on liberalisation of trade and investment between the two countries, strengthening economic competitiveness, ensuring long term sustainable development and capacity building. It does not appear that much has happened in terms of implementation of these specific provisions in the CEPA context, even as economic and other cooperation between India and Japan remain extensive and continually expanding. Some specific suggestions for activating the cooperation

elements have been given in Section 6 of the Report.

15. CEPA could play a significant role if trade, investment and cooperation can all be used to support and drive one another. A sustained increase in India's export to Japan will come about only if greater attention is given to increasing competitiveness, strengthening compliance with standards, enhancing export capacity, and moving beyond traditional areas of export. Cooperation in many of the areas may require widening of Japan's support for the 'Make in India' initiative to a 'Make and Trade from India' initiative that targets exports, including to Japan. Setting up a few Special Economic Zones near port based locations or using some of the Japanese industrial townships currently being established for attracting firms from both countries to create large export capacities both in traditional export sectors of India and in newer products could be a crucial enabler here. Integrating services from India in the manufacturing activities of Japanese enterprises would bring mutual gains. Creating a distinct collaborative model which uses Indian IT expertise, engineering skills and availability of professionals with Japanese enterprise, technology and capital would be important.

16. India's Foreign Trade Policy Statement for 2015-20 has observed that the projected gains from CEPA with Japan have not materialised to the expected extent. Referring to various problems faced by Indian business entities in relation to the Japan market including language constraints, high quality standards and high costs of meeting regulations the Statement has proposed running special trade promotion programmes in identified sectors. The Statement is also hopeful that several ongoing bilateral initiatives could promote investment generated trade.

17. More outreach efforts are certainly needed domestically not only for a better understanding of CEPA and its various provisions among all the stakeholders, but also how to utilise them for greater benefit. Greater awareness also has to be promoted about cultural factors, business practices and local regulatory expectations that are quite unique to Japan. These are also briefly outlined in Section 7 of this Report. The awareness building has to be combined with trade promotion efforts that are tailored to the Japan market. What this Report additionally recommends are measures to be undertaken with Japanese cooperation in improving India's competitiveness and capacity in existing sectors of export strength, setting up investments also in value added products in these areas in conducive locations near ports, creating capacities in new areas of manufactured products including in next generation auto products and bringing about greater integration of Indian IT services exports in the manufacturing sectors in Japan and Japanese invested enterprises elsewhere.

18. Globally, FTAs have become important vehicles to build partnerships for greater trade and investment cooperation. Even as we seek to craft new FTAs, optimising benefits from existing FTAs should be an important objective. India's CEPA with Japan being 'comprehensive' allows trade, investment and cooperation to be addressed together with mechanisms for monitoring, implementation and review. It is important that they are fully utilised.

INDIA-JAPAN CEPA: AN APPRAISAL

1. Introduction

1.1 The India-Japan Comprehensive Economic Partnership Agreement (CEPA) was signed in February 2011 and came into effect on 1 August 2011. The agreement was arrived at after four years of extended negotiations and basically consisted of agreed measures on liberalisation of bilateral trade in goods, trade in services and investment. While these commitments were subject to dispute settlement provisions in the agreement, an additional chapter on cooperation intended to promote greater cooperation in trade and investment was on a best endeavour basis without legal commitments.

1.2 The CEPA with Japan is only one of the two FTAs that India has signed with OECD economies, the other being with the Republic of Korea. It is also the FTA with the widest coverage both in respect of goods and services when compared with all the FTAs that India has become party to.

1.3. A bilateral Joint Study Group (JSG) had earlier recommended in 2006 the scope and framework of such an agreement that would be much deeper than a simple FTA and which would rest on the complementarity of the two economies. It identified the complementarities as extending to factor endowments, capabilities, demographic profiles, convergences and specialisations. The JSG report had in fact dwelt in some detail on how India's cost effective human resources complemented growing labour scarcity and rising wages in Japan; how Japan's strong capacity in IT hardware was complemented by India's software prowess; and how India's capabilities in pharmaceutical industry, biotechnology and auto components usefully complemented Japanese competence in heavy engineering, automobiles, machinery and chemical industry and the natural complementarities between the two countries in the agricultural sector. The JSG report had also drawn attention to the substantial unmet demand in India's infrastructure requirements even as Japan had cutting edge technology and underutilised supply side capacity in this critical sector. It further highlighted the presence of a vibrant enterpreneurial class in both countries and how the huge size of the Indian market and availability of skilled manpower provided a fertile ground for FDI by the capital abundant economy of Japan. Based on the JSG report, and convinced

that comprehensive economic engagement between the two countries must be the core element of their strategic partnership, the two Prime Ministers, Manmohan Singh and Shinzo Abe decided in December 2006, to launch immediate negotiations for conclusion of a CEPA.

1.4 The India-Japan partnership has expanded a great deal in the last ten years and many of the identified complementarities are getting exploited to advantage. Apart from CEPA coming into force as a mechanism for promoting trade and investment, large infrastructure projects such as the Delhi-Mumbai Dedicated Freight Corridor and the Delhi-Mumbai Industrial Corridor are under active implementation. Prime Ministerial meetings are now held annually and Prime Minister Modi's visit to Japan in 2014 saw the bilateral partnership elevated to the status of a 'Special Strategic and Global Partnership' when Prime Minister Abe promised 3.5 trillion yen of public and private investments from Japan to India in a five year period in the areas of next generation infrastructure, connectivity, transport systems, smart cities, rejuvenation of Ganga and other rivers, manufacturing, clean energy, skill development, water security, food processing and agro-industry, agricultural cold chain and rural development.

1.5 The recent visit of Japanese Prime Minister Shinzo Abe to India in December 2015 built upon this further with the two leaders Abe and Modi outlining a joint vision for partnership till 2025. The package of new initiatives announced include a US$ 12 billion 'Make in India Special Finance Facility' for promoting Japanese investment in India and another US$ 12 billion soft loan for the Shinkansen bullet train project. Further steps have also been indicated for taking forward the wide ranging ongoing cooperation between the two countries in infrastructure development in the rail, road and sea transportation and energy sectors.

1.6 It is in this backdrop that the India-ASEAN Centre at RIS is undertaking an assessment of implementation of the India-Japan CEPA. This study is also part of a larger study project on exploring further strengthening of ties between India and East and South East Asia. The conception of the project was driven to some extent by the growing trend among countries of this region to enter into FTAs including mega FTAs. To better understand the dynamics unleashed by this trend and how India should be responding to these developments it is important for India to first gain a clear appreciation of the benefits flowing from its own existing FTAs. This project is sponsored by the Ministry of External Affairs and two reports titled 'India and APEC- An Appraisal' and 'India-Korea CEPA - An appraisal' have already been submitted to the government and, later on, also released in the public domain.

1.7 The study is principally focussed on : a) How has the implementation of the India-Japan CEPA progressed? b) Is there scope for improvement in implementation? c) Are there other supportive measures that can contribute to greater benefits to be derived including from the many new bilateral initiatives underway?

The analysis for this Report is derived from desk research and interactions with various stakeholders both in India and in Japan. The study is based primarily on Indian trade statistics even as comparisons are made at various places with corresponding Japanese trade statistics. In respect of trade in services, however, due to lack of availability of disaggregated statistics at the Indian end, the analysis is based on Japanese statistics.

The study also relates only up to the financial year 2014-15 for which data was available during the study period. The slowdown in trade witnessed in 2015, however, has not been analysed even as the latest trade figures have been included in certain places in the report.

1.8 In Section 2 the Report looks at the state of the economy in the two countries in the last few years since this has an impact on implementation. The Report then moves on to assessing how trade in goods and trade in services have performed under CEPA in Sections 3 and 4, respectively. In Section 5 the impact on investment flows is assessed. The progress made on the CEPA provisions on cooperation (chapter 13 of CEPA) is then examined in Section 6. The cultural factors and business practices in Japan that have a bearing on trade and investment flows are then dwelt upon in Section 7. How do all these various aspects add up is discussed in Section 8. Finally, the conclusions are presented in Section 9.

2. State of Economy and Overall Foreign Trade Performance in the Two Economies during Implementation

2.1 There have been significant changes in the two economies since the time of the JSG report in 2006 and also from the time the implementation of CEPA began in 2011.

Changes in the Japanese Economy

2.2 The JSG report had noted in 2006 that the Japanese economy had been making a modest recovery after a long period of recession (the 'lost decade'). It had further noted that the recovery had been achieved driven by the progress of IT related adjustments and the recovery of exports and the target for non-performing loans had also been reached (and the restructuring of the banking sector). Japan, it concluded, could be said to have emerged from the long period of stagnation after the so called bubble economy period. Japan's export to GDP ratio which was 11 per cent in 2000 also rose to 17 per cent in 2008 and its trade openness (exports + imports/ GDP) during the same period also climbed from 20 per cent to almost 35 per cent of GDP.

2.3 Soon thereafter, however, the world financial crisis took its toll. While the Japanese financial institutions had not been directly involved in the US sub-prime loan issue in any significant manner, unlike some of the western financial institutions, Japan's reliance on export demand in the crisis-affected countries hit the Japanese economy hard with exports declining from US$ 776 billion in 2008 to US$ 581 billion in 2009. Japan's GDP also recorded negative growth rates during these two years but soon recovered in 2010 with its exports also reverting to earlier trends.

2.4 But the triple disasters of the great eastern earthquake that hit Japan in March 2011, the ensuing tsunami that wrought havoc, and the Fukushima nuclear meltdown had a strong impact on its foreign trade. Japan, which had run surpluses on merchandise goods trade for the previous three decades, began to have trade deficits that have continued to persist even now as will be seen from Table 1. The decision to shut down all its nuclear plants that provided for around 26 per cent of the country's electric power needs necessitated a much higher level of oil and other energy fuel imports at prices that were ruling high at that time.

2.5 While imports remained high during 2011-14 as a result, Japan's exports began to decline following a global slowdown which also saw China and the ASEAN countries, that had become part of

Table 1: Japan's Merchandise Trade for 2005-15					
Year	Japan's Global Exports (in US$ billion)	Growth Rate of Exports (in %)	Japan's Global Imports (in US$ billion)	Growth Rate of Imports (in %)	Trade Deficit (in US$ billion)
2005	598.22	5.9	518.64	14.1	79.58
2006	647.29	8.2	579.29	11.7	68.00
2007	712.73	10.11	621.08	7.21	91.65
2008	775.92	8.86	756.09	21.74	19.83
2009	580.79	-25.2	552.25	-27.0	28.53
2010	767.03	32.1	691.45	25.2	75.58
2011	820.79	7.0	853.07	23.4	-32.28
2012	801.33	-2.4	888.58	4.2	-87.25
2013	719.20	-10.3	838.89	-5.6	-119.68
2014	694.27	-3.5	817.10	-2.6	-122.83
2015	625.07	-10.0	648.34	-20.7	-23.27

Source: Compiled from data available on Japan External Trade Organisation (JETRO) website (https://www.jetro.go.jp/en/reports/statistics/).

the growing intra-regional trade and supply chain network with Japan, absorbing less of Japan's output. It is an interesting question whether Japan will revert to its earlier trade surplus position if most of the nuclear power stations were recommissioned. Some studies have indicated it may not, since a few structural changes have also taken place in the meanwhile. Japan's capacity and competitiveness in certain areas are coming under strain. Japan's imports of cellular phones, for example, have shot up from US$ 4.7 billion in 2010 to US$ 14.4 billion in 2014. Imports of foreign cars have significantly risen. There has also been a sharp increase in imports of pharmaceuticals (HS.30) from US$ 15.26 billion in 2010 to US$ 23.2 billion in 2015 that can be ascribed to an aging society and rise in healthcare costs. While Japan's imports dropped sharply in 2015, with the steep fall in oil prices, exports too declined and there is still a net deficit, even if the level of deficit has declined. Japan also retains a surplus on external account thanks to its net foreign income that can more than neutralise the trade deficit.

2.6 With Shinzo Abe assuming Prime ministership in December 2012 and launching his Abenomics programme with its three arrows, there were expectations that the Japanese economy will move towards a new decade of revival and revitalisation. Japan had gone through long periods of deflation and the economy burdened with declining birthrates and aging population was confronting a shrinking workforce. Private companies had to rein in capital investments and wages, and even hold off on R&D investments. With uncertainty about future and possible cuts in incomes, consumer behaviour had become governed by deflationary expectations. All of this had made Japan unable to pull itself out of the vicious cycle of stagnating demand and deflation.

2.7 The first arrow of monetary easing to end deflation and to move towards an inflation target of 2 per cent was launched soon after Abe took charge that saw the Japanese currency which was at a high of 77 yen to a US dollar in December 2011

depreciating to 120 yen a US dollar by end of 2014. An expansionary fiscal policy, the second arrow, was also implemented to provide short term boost to economy with a 10 trillion yen additional expenditure by the government with another 10 trillion yen coming from local government funds and the private sector. These were to be accompanied by a more difficult third arrow of structural reform and a growth strategy aimed at creating conditions for longer term growth, improving competitiveness and removing labour shortages. Measures on this ranged from employment reform, that included bringing more women into employment to promoting clean energy, electricity reform and deregulation, that were to result in a competitive market for electric power, enhanced medical care which was to enable both men and women to manage their jobs together with childbirth, childcare and aged care, and agricultural reforms that were to attract the entry of the private sector. Efforts were also to be made to successfully conclude various ongoing free trade negotiations including in respect of the Trans Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP).

2.8 While there was some evidence by June 2014 that Abenomics was showing results, with real GDP and retail prices showing growth over a few quarters and stock market indices registering strong increases, the hiking of VAT from 5 to 8 per cent in April 2014 was a dampener and the global slowdown also meant declining exports. While there were mixed views if Abenomics was delivering, Prime Minister Abe announced three more arrows in September 2015 as constituting Abenomics 2.0 which included measures intended to build a strong economy by boosting GDP to 600 trillion yen by 2020 (meaning almost 20 per cent rise from the present), raising women's fertility rate from 1.4 to 1.8, that will help to stabilise the population at 100 million in fifty years time, and strengthening social security so that by mid-2020s no one needed to leave his or her job to take care of parents.

2.9 What is of relevance to our study is that these changes were to be brought through growth oriented corporate reforms, increased use of IT, a certain new willingness at policy level (not yet perhaps at the popular level) to use human resources from overseas to improve economic advancement and not simply see it as an immigration measure, reform of medical and healthcare industries and creating a positive cycle of innovation and business creation through future oriented investment by the public and private sectors. Preparing for Tokyo to hold the 2020 summer Olympics is also an additional factor in this calculus.

2.10 What may be important to note from the viewpoint of this study is that the many aforementioned developments in Japan's economy only further underscore the complementarities that formed the basis for CEPA. A shrinking work force, the expected increased reliance on IT, the need for more cost effective healthcare, and the space getting vacated in certain segments by the slowing Chinese and other networked economies, all provide win-win opportunities, and a closer partnership between India and Japan could make a good fit.

2.11 Japan's main imports from the world are fuel, electronic equipment, machinery, pharmaceuticals, ores, vehicles, plastics, clothing, and agricultural and food items. On the other hand, its exports have been automobiles, machinery, electrical and electronics items, precision equipment and medical devices, steel, plastics, chemicals, ships and other vessels, rubber and refined petroleum products. Japan's trade with

Table 2: Japan's Major Export Destinations and Import Sources (2014)					
Export Destinations			Import Sources		
Rank	Country	Exports in 2014 (in US$ billion)	Rank	Country	Imports in 2014 (in US$ billion)
1	U.S.A.	129.44	1	P.R. China	182.07
2	P.R. China	127.11	2	U.S.A.	71.75
3	Republic of Korea	51.83	3	Australia	48.41
4	Taiwan	40.22	4	Saudi Arabia	47.80
5	Hong Kong	38.34	5	UAE	41.98
6	Thailand	31.56	6	Qatar	33.71
7	Singapore	21.12	7	Republic of Korea	33.58
8	Germany	19.21	8	Malaysia	29.35
9	Indonesia	14.85	9	Indonesia	25.79
10	Australia	14.30	10	Russia	24.88
11	Malaysia	14.24	11	Taiwan	24.42
12	Netherlands	13.14	12	Germany	24.26
13	Vietnam	11.86	13	Thailand	21.88
14	United Kingdom	11.23	14	Vietnam	15.50
15	Mexico	10.68	15	Kuwait	12.44
16	Philippines	9.93	16	France	11.53
17	UAE	9.56	17	Canada	11.33
18	Russia	9.31	18	Philippines	10.25
19	India	8.16	19	Brazil	9.75
20	Canada	8.03	20	Italy	8.67
			21	Chile	8.20
			22	Singapore	7.93
			23	Switzerland	7.27
			24	India	7.02

Source: Compiled from data on JETRO website (https://www.jetro.go.jp/en/reports/statistics/)

India has also generally followed this pattern but India has ranked quite low in Japan's external trade profile (see Table 2). In 2014, India was nineteenth among Japan's export destinations and twenty fourth among import sources. China was its leading trade partner followed by the United States. Several ASEAN countries including Singapore, Thailand, Malaysia, Indonesia, Vietnam and Philippines had higher levels of trade with Japan than India. East Asian countries on the whole accounted for 53 per cent of Japan's exports and 43 per cent of its imports and have enhanced involvement with Japan in production networks with intra-firm trade taking place through Japanese invested enterprises in components and intermediate products.

2.12 As for concluding FTAs, Japan was a relative latecomer and its first FTA was signed with Singapore in November 2002. Since then it has concluded 14 more of them that are already in effect (see

Table 3: Japan's Evolving FTA Framework		
Free Trade Agreements in effect *	Date of Entry into Force	FTAs under negotiation
Japan-Singapore	30-Nov-02	Regional Comprehensive Economic Partnership (RCEP)
Japan-Mexico	01-Apr-05	Japan-Canada
Japan-Malaysia	13-Jul-06	Japan-Colombia
Japan-Chile	03-Sep-07	Japan-China-Republic of Korea
Japan-Thailand	01-Nov-07	Japan-EU
Japan-Indonesia	01-Jul-08	Japan-GCC Free Trade Agreement
Japan-Brunei	31-Jul-08	Japan-Republic of Korea
ASEAN-Japan	01-Dec-08	
Japan-Philippines	11-Dec-08	
Japan-Switzerland	01-Sep-09	
Japan-Vietnam	01-Oct-09	
Japan-India	01-Aug-11	
Japan-Peru	01-Mar-12	
Japan-Australia	15-Jan-15	
Japan-Mongolia	10-Feb-15	
Trans-Pacific Partnership (TPP)	Concluded but awaiting ratification	

Source: Ministry of Foreign Affairs of Japan (http://www.mofa.go.jp/policy/economy/fta/index.html).
Note: *Japan terms all its Free Trade Agreements as Economic Partnership Agreement (EPA).

Table 3) accounting for 22.3 per cent of its trade average. It includes separate FTAs with each ASEAN member except CLM countries, and with ASEAN as a whole. Its membership of TPP that has recently been concluded and is awaiting to be put into effect will enhance the trade coverage to 37 per cent and have a significant impact on its market access conditions and trading framework which will need careful evaluation. If the RCEP negotiations also conclude successfully along with Japan-EU FTA, then it is estimated that Japan's FTA coverage will exceed 73 per cent of its overseas market.

Changes in the Indian Economy

2.13 In growth terms, the Indian economy did better during the period 2010-15 even as the growth rates of the last two years, 2013-14 and 2014-15, at 6.9 per cent and 7.4 per cent respectively (Table 4), seem overstated thanks to the shift to the new system of GDP measurement.

2.14 However, these growth rates did not contribute to any rise in India's external trade and its merchandise exports remained

Table 4: India's Annual GDP Growth Rates from 2009-10 (at constant prices)	
Year	Growth Rate of GDP (in %)
2009-10	8.4
2010-11	8.4
2011-12	6.9
2012-13	4.5
2013-14	6.9
2014-15	7.4
2015-16	7.6

Source: Various Economic Surveys

static at around US$ 300 billion during the four years from 2011-12. Even the significant level of Rupee depreciation vis-a-vis US Dollar during 2012-13 did not contribute to a spurt in exports. Judging by trends in 2015-16, India's exports by the end of this year are likely to see a further drop of at least 15 per cent.

2.15 India has also been somewhat guarded towards rapidly expanding its FTA network, due in part to perceived lack of compelling demonstrated gains. In fact, after the CEPA with Japan, India has not concluded any more FTAs. While negotiations with several other trading partners including EU, Indonesia, Australia, New Zealand and Canada have been continuing for some years now there is no indication about any imminent conclusion. At the regional level, however, India is actively participating in the Regional Comprehensive Economic Partnership (RCEP) negotiations.

2.16 A five year trade policy for 2015-20 was announced by India's Minister for Commerce and Industry on 1st April 2015 that aims to double India's goods and services exports to US$ 900 billion by 2020. A key driver for achieving this will be by improving India's competitiveness for several identified products and by anchoring India's trade policy to the government's initiatives such as 'Make in India', 'Digital India' and 'Skill India'. The policy also has indicated that the focus of India's future trade relationship with its traditional markets in the developed world, which appear well applicable to Japan also, would be to:

a) Increase, or at least, retain market shares in these markets;
b) Move up the value chain in these markets (this in turn, would provide an opportunity to introduce modern, international standards in India's manufacturing and service delivery);
c) Optimise applied customs duties in order to enable the import of inputs for India's manufacturing sector; and
d) Supply high quality inputs for the manufacturing sector in these markets.

In respect of CEPA itself, the Foreign Trade Policy Statement has stated that the projected gains for India from the CEPA with Japan (and Korea) have not materialised to the extent expected. The statement, therefore, notes that one of the major efforts would be 'to intensify outreach work on bilateral agreements with Japan (and Korea).'

2.17 The Statement also goes on to make some specific observations with indications for future actions on the Japanese market as given below:

121. *While on the one hand, the Japanese market has not seen growth in the product areas of India's interest, Indian business entities are facing problems in market access. These problems can be briefly said to be arising out of language constraints faced by Indian companies in Japan, highly demanding product and service standards, regulations which require business modalities making market access a costly venture, and a relative lack of intensive effort on the part of Indian business. India's trade and investment relationship with Japan is unique in nature. Japan is India's largest investment partner. Several ongoing initiatives in this direction are likely to increase Japanese investment in India. Indian business would, therefore, have the option of taking part in this process of investment generated trade. The other route of access of India's export sectors*

into Japan will require language proficiency, negotiating a simplified framework for market access and continuous trade promotion efforts on the part of businesses and the Government. The Government will, therefore, run special programmes for trade promotion in Japan in identified sectors such as textiles, garments, information technology services, pharmaceuticals, leather products and agro processed products.

2.18 It is pertinent that these observations drew a distinction between efforts needed for participating in trade generated by Japanese investments in India and those needed for gains from greater access into Japan in sectors of India's export strength. India has ranked quite low in Japan's external trade profile so far. As stated earlier, in 2014, India was nineteenth among Japan's export destinations and twenty fourth among Japan's import sources.

East Asian and ASEAN countries rank much higher not only due to export of raw materials or other products where they have intrinsic strengths but also due to their enhanced involvement with Japan in production networks and the role played by Japanese invested enterprises. Clearly India needs to mount efforts on both fronts as pointed out in the Foreign Trade Policy statement and these are dealt with in the following sections.

3. Bilateral Trade in Goods under CEPA

In this section, sub-section 3.1 deals with the tariff reduction commitments under CEPA of both India and Japan. The overall trends in bilateral trade during the four year period 2011-15 are examined in sub-section 3.2. Since exchange rates fluctuated considerably during this period the variations are given in sub-section 3.3. The utilisation rates of CEPA tariff concessions are then examined in sub-section 3.4. The detailed analysis at sectoral level of India's exports and imports vis-à-vis Japan is then presented in sub-sections 3.5 and 3.6.

3.1 Tariff Reduction Commitments under CEPA

3.1.1 Under the CEPA with Japan, India brought down tariffs on 18.37 per cent of all tariff lines at eight digit level, to zero on 1 August 2011 (Table 5). It also committed to

Table 5: India's Tariff Reduction Commitments under the India-Japan CEPA

Staging Category	A	B10	B5	B7	X	NOT SPECIFIED	SPECIAL CASE	Total
No. of Tariff Lines (8 Digit level of HS)	2074	7163	509	2	1538	1	2	11289
% Share of Total	18.37	63.45	4.51	0.02	13.62	0.01	0.02	100.00

Source: India Japan CEPA Legal text.

Note: Special Case: 1. HS 84082020 with the duty reduction criteria (i) 10.62 per cent as from the date of entry into force of this Agreement; (ii) 9.68 per cent as from January 1, 2012; (iii) 8.75 per cent as from January 1, 2013; (iv) 7.81 per cent as from January 1, 2014; (v) 6.8 per cent as from January 1, 2015; (vi) 5.94 per cent as from January 1, 2016; and (vii) 5 per cent as from January 1, 2017.

2. HS 87084000 with the duty reduction criteria (i) 11.25 per cent as from the date of entry into force of this Agreement; (ii) 10.63 per cent as from January 1, 2012; (iii) 10 per cent as from January 1, 2013; (iv) 9.38 per cent as from January 1, 2014; (v) 8.75 per cent as from January 1, 2015; (vi) 8.13 per cent as from January 1, 2016; (vii) 7.5 per cent as from January 1, 2017; (viii) 6.88 per cent as from January 1, 2018; and (ix) 6.25 per cent as from January 1, 2019.

Table 6: Japan's Tariff Reduction Commitments under India-Japan CEPA		
Tariff Liberalisation Category	HS 9 digit Tariff lines	Percentage of total tariff lines
A	7141	78.98
B10	622	6.88
B15	41	0.45
B7	45	0.50
X	1192	13.18
Total	9041	100.00

Source: Computed using India-Japan CEPA text and data from website of Japan Customs (http://www.customs.go.jp/english/tariff/).

bring down, in a phased manner, tariffs on 4.51 per cent of tariff lines to zero in 2016, and 63.45 per cent to zero by 2021. What will remain will be only 13.62 per cent of tariff lines which have been excluded from tariff liberalisation.

3.1.2 Japan's tariff reduction commitments were made at the nine digit level of HS Classification but the Annex of the India-Japan CEPA text also carries commitments at four, six and nine digit levels. After examining all the items at the nine digit level, it was found that on 78.98 per cent of tariff lines (category A) there was immediate tariff elimination from August 2011 onwards (Table 6). Tariffs on another 6.88 per cent of tariff lines were to be brought down to zero in ten years time (B 10 category) with equal annual reductions. A smaller number of tariff lines also figured in the B7 and B15 categories to be eliminated in 7 and 15 years, respectively. There were also 1192 tariff lines, comprising 13.18 per cent of all tariff lines (X category) on which no tariff reduction commitments were offered. These were largely in respect of sea food, dairy and other agricultural products, but also included certain leather, footwear, wood, silk and chemical items.

3.2 Overall Bilateral Trade Trends in Goods

3.2.1 India's merchandise trade with Japan in recent years as per DGCIS figures is given in Table 7. It indicates a significant shift to a higher level around 2011-12 coinciding with CEPA coming in to force even as the annual figures for India's exports to Japan have themselves shown an erratic trend. It increased from US$ 5.09 billion in 2010-11 to

Table 7: India's Exports and Imports from Japan as per DGCIS							
Year	Exports to Japan (in US$ billion)	Growth Rate of Exports (in %)	Japan's Share in India's Total Exports (in %)	Imports from Japan (in US$ billion)	Growth Rate of Exports (in %)	Japan's Share in India's Total Imports (in %)	Trade Balance for India (in US$ billion)
2009-10	3.63		2.03	6.73		2.34	-3.11
2010-11	5.09	40.28	2.04	8.63	28.17	2.33	-3.54
2011-12	6.33	24.3	2.07	12.00	39.02	2.45	-5.67
2012-13	6.10	-3.61	2.03	12.41	3.44	2.53	-6.31
2013-14	6.81	11.71	2.17	9.48	-23.62	2.11	-2.67
2014-15	5.38	-20.97	1.73	10.13	6.86	2.26	-4.75
2015-16*	3.59		1.83	7.34		2.49	-3.74

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.
Note: *Upto December 2015.

US$ 6.33 billion in 2011-12, declined slightly the next year, but went up again to US$ 6.81 billion in 2013-14. The exports, however, declined to US$ 5.38 billion in 2014-15 and present indications are there will be a further decline in 2015-16.

3.2.2 If a comparison is made between the average of India's exports to Japan four years prior to CEPA with the corresponding average four years after, then the average shows an increase by 57.83 per cent. This is more or less to the same extent (58.48 per cent) by which India's global exports increased during this period when evaluated by the same measure of a four year average. Also, Japan's share in India's overall exports has hovered around 2 per cent most of the time, pre- or post-CEPA, in effect suggesting that in relative terms in the overall, India's exports did not achieve any sharp rise due to CEPA.

3.2.3 Imports from Japan also rose significantly during the initial two years after CEPA came into force. There was a steep rise by 39 per cent to US$ 12 billion in 2011-12 climbing further to US$ 12.4 billion in 2012-13. Subsequently, however, they declined and amounted to US$ 10.13 billion in 2014-15.

3.2.4 From a comparison of four year averages of import values before and after the CEPA implementation, it is found that while India's global imports rose by 54.78 per cent, India's imports from Japan increased by only 48.84 per cent. Imports from Japan, on the whole, therefore, showed a somewhat slower pace than India's global imports.

3.2.5 The trade balance between the two countries has been consistently in Japan's favour. The size of the bilateral trade deficit for India has, however, been widely varying. As per DGCIS figures it peaked at US$ 6.3 billion in 2012-13, then declined to US$ 2.67 billion in 2013-14 but rose again to US$ 4.74 billion in 2014-15.

3.2.6 Figures for bilateral trade maintained by the Japanese side show a similar trend. This is even as Japan's figures for its export to India are a shade less than DGCIS figures for India's import from Japan. On the other hand, Japan's figures for its

Table 8: Trade Trends between India and Japan (Japanese Statistics) (in US$ billion)

Year	Japan's Exports to India (in US$ million)	Growth rate of Japan's Exports to India	India's Share in Japan's Exports (in %)	Japan's Imports from India (in US$ million)	Growth rate of Japan's Exports to India	India's Share in Japan's Imports (in %)	Trade Balance for India (in US$ billion)
2009	6.34		1.09	3.73		0.68	– 2.61
2010	9.02	42.27	1.18	5.66	51.74	0.82	– 3.36
2011	11.05	22.51	1.35	6.79	19.96	0.80	– 4.26
2012	10.62	-3.89	1.33	7.01	3.24	0.79	– 3.61
2013	8.67	-18.36	1.21	7.14	1.85	0.85	– 1.53
2014	8.16	-5.88	1.18	7.02	– 1.68	0.86	– 1.14
2015	8.11	– 0.7	1.30	4.87	– 30.6	0.8	– 3.24

Source: Japan External Trade Organisation (JETRO) website (https://www.jetro.go.jp/en/reports/statistics/).

import from India are somewhat higher than the corresponding DGCIS figures (Table 8). According to Japan's figures, Japan's exports to India rose steadily from US$ 6.34 billion in 2009 to US$ 11.05 billion in 2011, after which they declined to US$ 8.16 billion in 2014 and US$ 8.11 billion in 2015. India's share in Japan's exports, which increased to 1.33 per cent in 2012, declined to 1.18 per cent in 2014 but again climbed to 1.3 per cent in 2015. On the other hand, Japan's imports from India have risen more steadily from US$ 3.73 billion in 2009 to US$ 7.14 billion in 2013, and US$ 7.02 billion in 2014, accounting for about 0.86 per cent of Japan's global imports. There was, however, a sharp decline in 2015 by 30 per cent to US$ 4.87 billion.

3.2.7 Because of lower figures for its exports and higher figures for its imports vis-à-vis India, the size of the trade deficit for India is smaller. It peaked at US$ 4.26 billion in 2011 but declined steadily to US$ 1.14 billion in 2014. But in 2015, it has again climbed to US$ 3.24 billion.

3.2.8 What is evident from this analysis of data from both sides, is that there has been no steady growth trend in either direction. While trade grew significantly in the first two years or so after CEPA came into force, there have been declines subsequently owing perhaps less to CEPA than to other factors including commodity price trends, exchange rate movements, etc. In any case, there have been no marked upward movement in market shares as may have been earlier expected.

3.3 The Role of the Exchange Rate

3.3.1 Exchange rate fluctuations play an important role in determining trade flows between two countries. During the last few years, the Japanese Yen depreciated quite rapidly in respect of US Dollar (Table 9). When CEPA came into force on 1 August 2011, the Japanese Yen was trading vis-à-vis the Indian Rupee at 1 Re = 1.70 Yen that rapidly became 1.46 Yen by December 2011. However, in four years time, by March 2015, the Rupee level firmed up against the Yen trading at 1 Rupee equal to 1.93 Yen. Also the currencies of several of India's competitors in the Japanese market showed greater depreciation vis-à-vis the US Dollar. This would have been a factor affecting *inter se* competitiveness between India and certain ASEAN countries on items like textiles, leather items, sea food, etc.

3.4 Utilisation Rates of CEPA

3.4.1 While India does not maintain published statistics in this regard, figures obtained from the Japanese side show that CEPA utilisation by India was 19 per

Table 9: Exchange Rate Yen and Rupee

Date	US$	Yen	Rupee	Rupee/Yen	% change
4th Jan 2010	1	93.05	46.51	2.001	
4th Jan 2011	1	82.1	44.84	1.831	-8.48
4th Jan 2012	1	76.66	52.78	1.452	-20.67
4th Jan 2013	1	87.65	54.84	1.598	10.04
6th Jan 2014	1	104.69	62.32	1.680	5.1
5th Jan 2015	1	120.29	63.38	1.898	12.98
4th Jan 2016	1	119.51	66.5	1.798	-5.26

Source: IMF.

cent in 2012, 20 per cent in 2013 and 21 per cent in 2014. When this is seen (Table 10) along with the fact that over 75 per cent of India's exports attract zero duty in Japan even without CEPA (on MFN basis) this implies that only around 5 per cent of India's exports did not avail of CEPA duty concessions in 2014. This gap in utilisation could be because of items falling under the exclusion category. It could also be that in respect of some items that were eligible for duty concessions, there was non-utilisation due to lack of awareness among exporters, or because of non-timely issue of certificate of origin or because the exported product did not fulfill the rules of origin requirement.

3.4.2 Table 11 provides further insight into sectoral shares. Marine products, chemicals, textiles and steel are the main sectors availing of CEPA concession in the case of India. Leather products, food items, animal/vegetable fats and oils and Vegetable products also account to some extent with other items having much smaller shares. Table 11 also provides extent of utilisation in

Table 10: Values of Preferential Imports from India into Japan

	2012	2013	2014
Value of utilisation (in US$ million)	1,042	1,367	1,565
Percentage of utilisation (utilisation of preferential imports/Total Import) (in %)	18.7	19.8	21.2
Duty free imports share* (in %)	76	76	75

Source: Ministry of Finance, Japan and IDE-JETRO.
Note: * The share of duty-free imports is imports of products with zero MFN rates divided by total imports.

Table 11: CEPA Utilisation at Sectoral Level for India in 2014

Sector	Sector level share in total CEPA concessional imports into Japan (in %)	Sector level share of CEPA imports in total imports in that sector (in %)
Live Animals (including marine products)	24.0	79
Vegetable Products	1.8	64
Animal/Vegetable fats and oils	2.0	96
Food Products	2.5	85
Mineral products	0.1	62
Chemical products	24.0	82
Plastics and Rubber	0.8	35
Leather products	2.4	59
Wood products	0.1	71
Textiles	25.0	82
Footwear	0.9	81
Plastic or glass items	0.1	63
Precision metals	1.1	68
Base metal	14.0	97
Miscellaneous	0.4	82

Source: Table compiled using data available in 'Preference Utilisation in Japan's import' by Kazernoby Mayakava, Institute for Developing Economies (IDE-JETRO).

each sector. While it is welcome that India's utilisation is 80 per cent or above in its main sectors of export enjoying preferential access into Japan, sectors like vegetable products, leather products, plastics and rubber items and precision metals are seen to be falling behind. It may be important for concerned export promotion bodies to bring about greater awareness among Indian exporters of these items, in particular SMEs, about duty benefits under CEPA. Some exporters, particularly in the sea food and textile sectors also referred to the delays that they faced sometimes from the Export Inspection Council (EIC) in the prompt issue of Rules of Origin certificate and also wanted the service on a 24x7 basis.

3.4.3 While there is no similar statistic available about Japan's utilisation of CEPA, it is seen that the number of Certificates of Origin that were issued to exporters by the Japanese side steadily rose from 19,822 in 2012 to 26,147 in 2013 to 32,366 in 2014.[1] Since, however, no values have been indicated against these certificates it is difficult to arrive at any utilisation rate. Clearly, as an important issue in implementation of CEPA, customs authorities of both sides should meet periodically to evaluate and see if concordance can be established between available statistics with both sides. During the research undertaken for this study there were also several other discrepancies that were noticed that could also be discussed including: a) the wide gap between the bilateral trade figures maintained by the two countries; b) the fact that five of the top twenty HS chapters for India's exports to Japan as per DGCIS data are different from the top twenty HS chapters of imports from India as per Japan statistics; and c) absence of concordance at product and tariff line levels in a very large number of cases.

3.5 Exports to Japan after CEPA

3.5.1 Annex 1 to this Report contains a detailed analysis of the impact of CEPA on India's exports to Japan HS chapter-wise. Key findings of this analysis are given in the following paragraphs.

3.5.2 Petroleum products have been the single largest set of items exported from India to Japan accounting for roughly 40 per cent of India's export basket. While details about items exported are conflicting, depending on the source of trade statistics, it does appear after confirmation from some of the suppliers that the predominant item of India's export is Naphtha whose import into Japan is duty free even on MFN basis. It is unlikely, therefore, CEPA made any difference to trade in this sector. India's exports of these products to Japan have been fluctuating, governed perhaps more by global dynamics of oil trade. This could also be one reason for the overall unsteady trend in India's exports to Japan.

3.5.3 There are two other major items of India's export on which too the MFN duties are zero in Japan and CEPA had no impact on their fortunes. On the other hand, the domestic supply constraints at the Indian end have affected their prospects. One of them is Iron ore whose exports have been restrained by export taxes, on one hand, and export limits imposed by the Supreme Court, on the other. The other item is Soya bean meal whose exports were US$ 454

[1] Japanese Chamber of Commerce and Industry in India (JCCII)

million in 2010-11, which came down to US$ 22 million in 2014-15 because of low international prices that our producers could not compete with.

3.5.4 Yet another sector where domestic supply constraint had an impact was on the exports of Iron and Steel products (HS 72) which totalled US$ 358 million in 2010-11 but declined to US$ 245 million in 2014-15. While exports of Ferro Manganese and Ferro Silico Manganese (both under B10 category) maintained their export levels, export of Ferro Chromium (A category) declined from US$ 168.3 million in 2010-11 to only US$ 50.7 million in 2014-15 because of fall in domestic chromite production.

3.5.5 If the aforementioned set of items (Petroleum products, soybean meal, Iron ore and Iron and steel products) were taken out of reckoning then there is a clearer trend evident in the growth of Indian exports which also take a higher trajectory following the conclusion of CEPA. After due consideration and careful analysis of the remaining items it is felt that India would benefit from focussing on the following select sectors where CEPA offers an advantage and where India also has export strengths that can be further consolidated. These are:

* Marine products including processed sea food,
* Pharmaceuticals,
* Garments,
* Certain Agricultural products, and
* Diamonds and Jewellery.

Additionally India's exports of certain engineering products, specially auto products, are showing promise. That would be another important sector to focus on. This is even as MFN duty on several of the engineering products is itself zero in Japan.

Marine Products

3.5.6 India's exports of Fish and crustaceans to Japan increased from US$ 301 million in 2010-11 to US$ 432 million in 2014-15. Among them the major items were frozen shrimp and meat of fish. India is the second largest exporter of shrimp to Japan after Vietnam and zero duty under CEPA gives a marginal advantage against 1 per cent MFN tariff. For frozen fish meat (also called surimi) for one variety there is no CEPA concession while for another the CEPA tariff is 1.9 per cent against an MFN tariff of 3.5 per cent. Exporters are not able to use the concession for latter since they use an imported preservative and the rules of origin require it to be a wholly obtained product. This seems a legitimate case for a suitable interpretation of ROO by both sides since the preservative accounts for a minute share of value of the product.

3.5.7 India should also be well placed to export processed shrimp and Indian exporters have started offering cooked shrimp, sushi shrimp, stretched shrimp (Nobashi), kneaded products and marinated products. Interestingly, many Japanese importers import raw material from India to South East Asia or China, add value, and re-export to Japan, EU and US. Creating facilities for value addition near a suitable port location along with making available items needed for processing that are of internationally accepted quality (preservatives, bread crumbs for breaded shrimps, small bamboos for skewered shrimps, marinating material, herbs, etc.) could dramatically improve prospects in this area.

3.5.8 Greater benefit can accrue if India can also obtain duty concessions under CEPA for cuttle fish and squids, clams, molluscs and their processed forms for which MFN tariffs are presently significant.

It must also be mentioned that for Malaysia and Vietnam, which are presently getting higher level of concessions for these items than India under their respective FTAs with Japan, the tariffs may come down to zero with TPP coming into force.

3.5.9 Indian exporters would, however, need to adhere to the strict quality standards maintained by Japan, particularly in respect of anti-biotic contaminations. There have been several incidents of anti-biotic contaminations in farmed shrimp consignments from India in recent years. The Export Inspection Council and MPEDA would need to introduce strict measures for compliance including a system of traceability. A few exporters not undertaking due diligence invites 100 per cent check of all imports into Japan from India that results in delay to all exporters and also dents the national image.

Pharmaceuticals

3.5.10 Exports of basic drugs, Active Pharmaceutical Ingredients (APIs) and formulations, mainly generics, and medical supplies are showing signs of export growth from India to Japan. Certain of these items have benefitted from CEPA duty concession of zero duty, against an MFN duty level of 3.1 per cent, but for others the MFN duty itself is zero. It is also relevant to mention here that Article 54 of CEPA specifically deals with cooperation in generic medicines between the two countries and *inter alia* provides for national treatment in respect of registration and other approvals required to be completed within a reasonable period of time.

3.5.11 With a total market of US$ 15 billion for pharmaceuticals in Japan, India is well placed to acquire a larger share particularly for its APIs and generics. This is particularly so when the Japanese government is making a targeted move towards achieving 80 per cent share of generics by 2020, with the current level only around 50 per cent (see Box 1).

3.5.12 Indian companies are exploring a variety of ways to approach the highly

Box 1: Extract from Cabinet Decision of Japan

The targeted volume share of generics has been revised from 60 per cent or above by the end of FY 2017 to 70 per cent or above by mid-2017 as a step toward achieving 80 per cent or above, and it is planned to attain the target goal of 80 per cent or above at the earliest date possible between FY 2018 and 2020. A detailed time-table for attaining 80 per cent or above shall be finally set through evaluation of actual progress in volume share of generics by mid-2017.

Additional measures considered necessary to reach the new target will be taken in related fields such as stable supply, confidence in quality, information provision, and NHI-related matters.

From the viewpoint of decreasing the financial burden on people, the revision of pricing rules for generics will be examined and also the evaluation in the NHI scheme of off-patent originator medicines will be reviewed in consideration of the pricing of generics, etc.

Source: Interim translation by JGA, Generics-related extract from Basic Policy on Economic and Fiscal Management and Reform 2015 (Cabinet Decision 30th June 2015) chapter 3-5 [1] Social Security, pages 33-34.

quality conscious Japanese market including by getting the Japanese regulator PMDA's approval for the manufacturing units in India, through contract manufacturing for Japanese companies or by taking over a pharma company in Japan as was done by Lupin Laboratories. There are also international generics companies like Mylan which are catering to the Japanese market from their Indian units. Japanese companies themselves are also setting up Indian production units such as EISAI setting up a 100 per cent owned unit in Vizag, or Meiji Seika takeover of Medreich in Bangalore or Claris Otsuka joint venture in Vizag.

3.5.13 A draft MoU for cooperation between the Drug Controller General's office in India and PMDA is known to be under negotiations. It will be very good if this can be signed as early as possible. It can build on the CEPA framework and facilitate regulatory cooperation. If there can also be some collaboration between the two countries on skill development in quality control, greater understanding of regulatory expectations and specific training programmes in meeting the rigorous documentary requirements this would open up more trade and investment and also help in production sharing opportunities.

Apparel

3.5.14 India's exports of woven apparel to Japan increased from US$ 131 million in 2010-11 to US$ 192 million in 2013-14 but experienced some decline to US $ 169 million in 2014-15. Exports of knitted apparel rose from US$ 14 million in 2010-11 to US$ 33 million in 2014-15. The CEPA zero duty on these items form a substantial concession considering that the MFN duties range from 9.1-10 per cent for woven and from 5-10.4 per cent for knitted apparel. Japan, however, extends zero duty concession also to ASEAN countries with which it has EPAs as also to LDCs like Bangladesh, Cambodia and Laos. In fact, in the CEPA with India and in the ASEAN countries' EPAs, the Rule of Origin would require both operations (weaving and garment making) to be done in the

Table 12: Japan's Imports of Woven Garments (Share in %)

Country/Region	2010	2011	2012	2013	2014
China	80.53	77.54	74.40	71.52	66.79
ASEAN	9.82	12.79	14.88	17.11	20.53
Vietnam	5.94	7.36	7.76	8.61	10.09
EU	4.07	3.92	4.09	4.20	5.68
Bangladesh	1.10	1.34	1.86	2.24	2.70
Myanmar	1.57	2.34	2.62	3.17	3.93
Indonesia	0.93	1.37	2.16	3.01	3.16
Italy	2.85	2.71	2.76	2.91	3.13
Cambodia	0.00	0.00	0.92	1.22	2.13
India	1.29	1.36	1.45	1.31	1.31
US	0.61	0.55	0.66	0.67	0.62
Thailand	0.46	0.45	0.50	0.52	0.60
Korea	0.37	0.33	0.30	0.00	0.00

Source: Japan Textiles Importers Association.

Table 13: Japan's Imports of Knitted Garments (Share in %)					
Country/Region	2010	2011	2012	2013	2014
China	87.91	85.63	83.23	80.34	76.22
ASEAN	5.65	7.74	9.81	12.53	15.78
Vietnam	3.46	4.39	5.25	6.81	8.36
Indonesia	0.54	1.21	1.93	2.44	2.92
Bangladesh	0.62	1.15	1.50	1.73	2.19
EU	2.52	2.45	2.49	2.56	2.98
Thailand	1.25	1.45	1.64	1.70	1.98
Italy	1.73	1.68	1.69	1.74	1.79
Cambodia	0.00	0.00	0.35	0.78	1.38
US	0.47	0.40	0.41	0.39	0.44
India	0.22	0.22	0.23	0.24	0.31
Myanmar	0.00	0.05	0.12	0.14	0.33
Korea	1.10	0.94	0.83	0.00	0.00

Source: Japan Textiles Importers Association.

exporting country. LDCs, however, will be eligible even if they use imported fabric for garment making.

3. 5.15 What is also interesting is that China's share in Japan's woven apparel imports has dropped from 81 per cent in 2010 to 67 per cent in 2014 (Table 12). Similarly, their share in Japan's knitted apparel imports has declined from 88 per cent to 76 per cent in the same period (Table 13). According to Japan Textiles Importers Association (JTIA), the Chinese shares will come down eventually to 50 per cent due to decline in price competitiveness of China in certain market segments. As of now countries like Vietnam, Indonesia, Myanmar, Cambodia and Bangladesh have filled the gap. India's share has seen some marginal rise to 1.31 per cent in woven items and to 0.33 per cent in knitted items in a market where the total imports under the two categories exceed US$ 10 billion each.

3.5.16 It is evident that if India continues to rely on the existing model for export to Japan with no improvement in the product range or competitiveness, India's share in the Japanese market will continue to be limited, despite the CEPA concession, and despite the advantage of being a cotton producer with a large spinning and weaving industry. More effective customs and trade facilitation measures, flexibility in labour policy for a seasonal sector, etc., can help to some extent, in exporters being able to improve on their competitiveness and meet the rather tight delivery schedules.

3.5.17 More significant, however, is the related issue of facilitating manufacture by bigger units that can bring in economies of scale. The recent entry of the Japanese apparel giant UNIQLO into India marks a good beginning. It would be important to engage with Japanese trading houses and JTIA and see if some of the producers they are currently sourcing from could be also persuaded to invest in India. There is a huge market that is likely to open up not only in Japan but also in other world markets as a result of China's gathering exit from certain

segments of the market that India can benefit from. India will however need to make available 'Ease of Doing Business' locations that are also well connected to major ports.

Diamonds and Set Jewellery

3.5.18 Exports of cut diamonds and jewellery from India to Japan increased from US$ 279 million in 2010-11 to US$ 361 million in 2011-12 but declined to US$ 283 million in 2014-15. Over 90 per cent of these exports were cut and polished diamonds and India, with a 46 per cent share of the market, is the largest supplier. The MFN rate of duty is also zero and trade in this item is, therefore, not influenced by CEPA.

3.5.19 CEPA, however, does offer a tariff advantage for set jewellery in which India's share is presently limited to 1.6 per cent. This segment is large with total imports above US$ 800 million and against the MFN duty rate of 5.4 per cent, the CEPA concessional duty at present is 1.2 per cent. Some among Indian gem traders in Japan (and there are over 150 Indian diamond traders who have commercial presence) feel that India can succeed more if it can have tailor made products for the Japanese market. A few of the well known Indian brands are known to be making exploratory moves in this regard. India will, however, also have to undertake more promotional efforts and needs to revert to participating in local fairs which it has not done in recent years.

Agricultural Products

3.5.20 Cashew nuts, vegetable saps and extracts, black tea, dried eggs albumin and Edible Gelatine are among the more significant agricultural export items from India to Japan. India's cashew nut exports have steadily grown from US$ 35 million in 2010-11 to US$ 58 million in 2014-15 but the MFN duty on cashew itself is zero. Similar is the case with vegetable extracts including guar gum whose exports have risen to US$ 40 million. Interestingly, however, even as both Albumin and Gelatin are placed in the exclusion list of CEPA, their exports have gone up from US$ 6 million to US$ 16 million and from US$ 6 million to US$ 11 million, respectively. In respect of tea, Sri Lanka with a 53.1 per cent market share is the main competitor for India that has a 23.5 per cent share. The CEPA preferential tariff is 1.4 per cent but that does not seem to have improved India's share. But the CEPA concessional duty has perhaps helped with exports of black pepper going up from US$ 2 million to US$ 7 million.

3.5.21 More important than tariffs, however, are SPS and other health requirements that are particularly stiff in respect of Japan. India has not progressed well on this count and many of India's items including mangoes are virtually shut out on one pretext or another. It also does not appear that the CEPA mechanism for regular monitoring and review in the form of a Sub-Committee on Standards and SPS has met. On the other hand, what is welcome is the accreditation given to the agency, One Cert International in Jaipur, to provide organic certification that meets Japan Agricultural Standards (JAS) for these items. Already 150 Indian producers appear to be registered with them but mostly for tea.

3.5.22 One item which in particular can have very good export prospects is sesame seed for which the MFN duty is also zero. Japan is one of world's largest importer of sesame seeds and these mainly come from African countries and Myanmar (see Table 14). Japan has not been sourcing sesame seeds from India apparently because of high pesticide residue levels. This is a matter to be

Table 14: Japan's Imports of Sesame Seeds in 2014		
Country	Japan's Imports (in 1000 JPY)	Share to Japan's Total Imports of Sesame Seeds (in %)
Nigeria	11415263	28.21
Tanzania	7823548	19.34
Paraguay	4921209	12.16
Burkina Faso	4146157	10.25
Guatemala	2552680	6.31
Myanmar	2396873	5.92
Ethiopia	1297679	3.21
Total Imports by Japan	40458611	

Source: Compiled from statistics from Trade Data for Japan, Ministry of Finance. (http://www.customs.go.jp/toukei/info/index_e.htm)

taken up through SPS Sub-Committee and if necessary corrective action to be taken by our producers who in any case are exporting to countries like Korea. Additionally, as was mentioned in the Korea report as well, there is a large market for processed sesame items in many of the East and South East Asian markets.

Other Items

3.5.23 There are several other items which have also done well with CEPA concessional tariffs including dyes and certain chemicals, leather articles, viscose yarn, certain textile made-ups, etc. In certain of these cases such as leather articles or in respect of items like set jewellery, a few fishery items and albumin, ASEAN countries having EPAs with Japan receive deeper concessional access. This needs to be addressed at a suitable time when it is time to review CEPA or even in the ongoing RCEP negotiations.

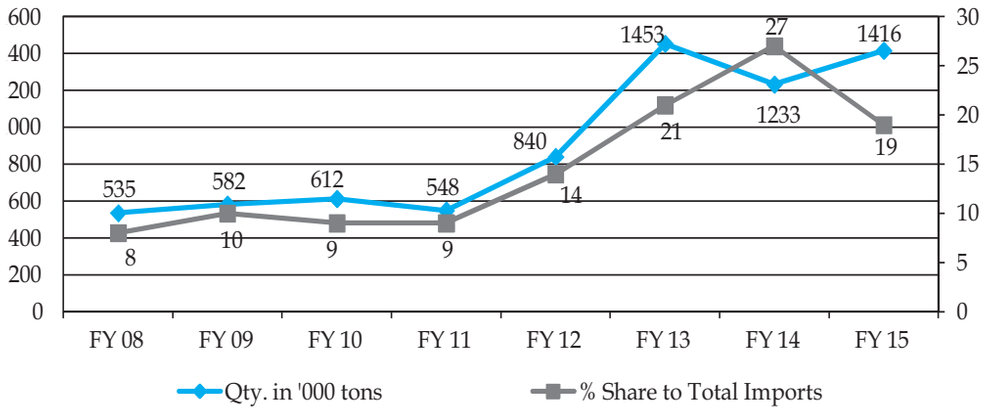
3.5.24 Engineering items, machinery and automobiles and parts attract zero MFN duty in Japan. Even as CEPA has had no role in it, it may be important to recognise that certain Indian exports to Japan like parts of machinery, valves, spark engines and parts and auto parts have risen since CEPA came into force. These could be possible areas for building a stronger supply chain relationship and for strengthening India's capacity to be a larger auto hub.

3.6 Imports from Japan after CEPA

3.6.1 Annex 2 to this Report carries a detailed analysis of the impact of CEPA on India's imports from Japan HS chapter wise. Machinery and parts (HS 84), Electrical and Electronic items (HS85) and Iron and Steel (HS72) together have generally comprised half of India's imports from Japan. While imports of items under the first two of these chapters grew initially after CEPA came into force, their import levels in 2014-15 were even less than the corresponding levels in 2010-11. On the other hand, imports of iron and steel rose more steadily benefitting from the favourable B5 tariff treatment for much of this chapter which will see the duties reduced to zero in 2016. It is interesting to note in comparison that in the case of CEPA with Republic of Korea, India's imports rose for each of the three HS chapters during these years.

3.6.2 Concerns about rising imports from Japan were heard from Indian industry

Figure 1: India's Imports of Iron and Steel from Japan



Source: Joint Plant Committee.

by the RIS study team both from steel producers and copper wire manufacturers. In respect of steel, imports from Japan, according to the Joint Plant Committee, rose from 548 million tonnes in 2010-11 to 1416 million tonnes in 2014-15 (see Figure 1). In particular, the sharp rise in imports of flat rolled products (HS 7208), which increased from US$ 153 million in 2010-11 to US$ 429 million in 2014-15, caused concern to domestic producers. Being in the B5 category these products were eligible for a preferential tariff of 0.8 per cent in 2015 (and zero in 2016) as opposed to the MFN tariff of 7.5 per cent.

3.6.3 The 20 per cent safeguard duty on steel imports imposed in September 2015 for 200 days should temporarily address the steel imports issue. In response to complaints about cheap imports coming into India from various countries, the Government of India has also imposed a Minimum Import Price on various iron and steel products for a period of six months from 5 January 2016.

3.6.4 On copper articles, import figures indicate a sharp rise from only US$ 29 million in 2010-11 to US$ 130 million in 2014-15 with much of the rise taking place in 2014-15. While many items in this chapter (HS 74) also benefit from B5 tariff concession, the sharp rise has come from a surge in copper wire imports (HS 74081190) from US$ 8 million in 2013-14 to US$ 65 million in 2014-15, even though the tariff reduction is under B10 category. For the period April-August 2015 India's imports of this item have, however, been more subdued at US$ 11.12 million. In any case, it may be a prudent measure to notify the bilateral temporary safeguard measure that is provided for in Article 23 of CEPA so that it is available for use when necessary.

3.6.5 Imports of Ships and Floating Structures (HS 89) varied widely depending on deliveries during a particular year. Generally, however, they showed a sharp increase with imports that were US$ 172 million in 2010-11 scaling up to US$ 944 million in 2014-15. Imports consisted mainly

of drilling or production platforms and vessels coming into India for breaking up.

3.6.6 Imports of vehicles and parts (HS 87) also grew from US$ 472 million in 2010-11 to US$ 552 million in 2014-15. While a majority of HS 87 items are under the exclusion category of CEPA, imports of Gear Boxes for which there is a special tariff reduction dispensation rose from US$ 62 million in 2010-11 to US$ 150 million in 2014-15. Furthermore, according to Automobile Components Manufacturers Association (ACMA) imports of all top auto component parts from Japan (not only from HS 87 but also drawn from other chapters) increased from US$ 985 million in 2010-11 to US$ 1391 million in 2014-15. This also included increase in imports of the only other item with a special tariff treatment, engines above 250 CC, rising from US$ 30 million in 2010-11 to US$ 110 million in 2014-15.

3.6.7 Substantial imports were also accounted for by optical and other precision instruments and medical devices (HS90) in which Japan enjoyed particular competitive advantage. Their imports into India rose from US$ 457 million in 2010-11 to US$ 544 million in 2014-15. Growth was particularly strong in respect of instruments for physical and chemical analysis (HS 9027) whose tariffs came down to zero in 2011 under CEPA and whose imports rose from US$ 74 million in 2010-11 to US$ 119 million in 2014-15.

3.6.8 Imports of plastics (HS 39) also grew significantly by 58 per cent from US$ 280 million in 2010-11 to US$ 443 million in 2014-15. Imports of items like polymers of ethylene, PVC resins, acrylic polymers and other articles of plastics rose steadily. In terms of tariff category, imports under B10 rose by more than 67 per cent and accounted for 83 per cent of imports under this chapter. As further tariff reductions come about in the coming years, imports of these items could see more growth.

3.6.9 Imports of organic chemicals (HS 29) and inorganic chemicals (HS 28) remained relatively subdued but there were anti-dumping duties in force for a few products as per the list enclosed in Annexure 2. There was Appendix also some increase in the imports of certain insecticides and herbicides (HS38) but these were not very large in terms of value.

3.6.10 Imports of steel products (HS 73) showed some increase from US$ 316 million in 2010-11 to US$397 million in 2014-15. A large part of the rise could be attributed to imports of Screws, bolts, nuts, etc., (HS 7318) which rose from US$ 73.5 million to US$ 124 million in this period.

3.6.11 Imports of coke of coal and petroleum coke were significant but followed an unsteady pattern. Among other items which saw a rise was artificial filament yarn, on which the concessional duty was zero from 2011 and whose imports rose from US$ 53 million in 2010-11 to US$ 71 million in 2014-15. Imports of Nickel and articles thereof (HS 75), under B10 category, also grew very sharply from only US$ 8.29 million in 2010-11 to US$ 48.17 million in 2014-15.

3.6.12 Table 15 gives, tariff category wise, a comparison for import figures for the pre-CEPA year 2010-11 and for 2014-15, after almost four years of CEPA implementation. It is interesting to note that there has actually been a decline in the total import of items in category A whose tariffs were brought down to zero immediately after the coming into force of CEPA. This is principally due to reduction in import of certain electronic products like cell phones and other IT products from

Table 15: Tariff Category wise Growth in Imports of Top 20 HS Chapters			
Tariff Category	Imports from Japan in 2010-11 (in US$ million)	Imports from Japan in 2014-15 (in US$ million)	Percentage increase
A	703.40	638.20	-9.27
B5	1033.73	1447.58	40.03
B7	2.50	8.77	250.80
B10	5030.98	5936.89	18.01
SPECIAL CASE	92.92	260.89	180.77
X	1180.88	1322.87	12.02
N/A	29.37	57.73	96.56
Total Imports from Japan for top 20 HS Chapters	8073.78	9672.93	19.81

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Japan even as imports of a few other items with zero tariffs such as certain precision instruments, artificial filament yarn and Ethylene-propylene non-conjugated diene rubber (EPDM) saw some increases.

3.6.13 Imports of items under the tariff category B5 rose by 40 per cent. Products contributing to this growth were mainly iron and steel and certain copper items with the former causing particular concern to domestic producers of basic commercial steel. The bulk of the imports otherwise came under the B10 category which collectively increased by 18 per cent over a four year period indicating a not too sharp a rise. There were, however, individual items like copper wire, plastics and nickel where a sharp rise could affect domestic industry. It must also be recognised that a few chemical products are currently facing anti-dumping duties indicating that their imports caused injury to the domestic industry earlier. As for the two items in the specially negotiated category, gear boxes and engines over 250 CC, they saw an almost three fold surge. Finally, items under exclusion also witnessed some increase.

3.6.14 An aspect which may need some attention is the inverted duty structure in respect of certain CEPA tariff concessions. For example, the Indian Machine Tool Manufacturers' Association (IMTMA) complained that while complete CNC machinery was included uncer CEPA tariff concession, four critical components were not. Apparently, IMTMA had also brought this to the attention of the Tariff Commission.

3.6.15 In sum it can be stated that while there are certain products like steel, copper wires, plastics, nickel and certain chemicals in which CEPA tariff reductions have enabled better market access for Japan resulting in increased imports that could be causing concern to the domestic industry, the overall surge is quite modest. During the visit of this investigator to Tokyo, when he also had the occasion to meet senior officials of JETRO and Ministry of Economy, Trade and Industry (METI) the Japanese side did not propose any further reduction in tariffs under CEPA by India. There were however queries made about India's stance in RCEP negotiations. The suggestion was made that reduction in tariffs by India for auto parts

and other products for ASEAN members like Thailand or for China could enable Japanese invested enterprises in these countries to export to India, which can bring India into the larger Japanese supply chain network. They were also keen to know if India will be ready to accept, in the Rules of Origin under CEPA (Article 29), only one of the two requirements (change in tariff subheading and minimum value addition of 35 per cent) rather than both.

4. Trade in Services between India and Japan

4.1 Profile in Services Trade of India and Japan

4.1.1 India ranked sixth in the world in the export of services with its exports totalling US$ 151 billion in 2013. On imports it ranked ninth with an import figure of US$ 125 billion in the same year, thus recording a surplus of US$ 26 billion. India's international trade share was 3.2 per cent for exports and 2.8 per cent in respect of imports. Japan on the other hand was eighth in the world in terms of its exports that stood at US$ 145 billion in 2013 with a 3.1 per cent global share. But it is a net importer of services with its global imports at US$ 162 billion and a 3.7 per cent share. It therefore recorded a deficit of US$ 17 billion that year on the services account.

4.1.2 In the case of India, apart from transportation services and travel services, India's exports in respect of other commercial services are basically in respect of computer and information services, other business services, financial services, communications services, insurance and personal, cultural and recreational services. Its major imports on the other hand are transportation services, other business services, insurance, financial services and computer and information services.

4.1.3 In respect of Japan, its main exports are, apart from travel and transportation, earnings from royalties and license fees, merchandising, leasing, R&D services, construction and financial services. On the other hand its main imports are transportation and travel, other business services, royalties, and licence fees, computer and information services, construction, insurance, financial services, communication services and personal, cultural and recreational services.

4.2 Bilateral Trade in Services

4.2.1 Despite their high ranking globally in the import and export of services, bilateral trade between India and Japan has been subdued. Moreover, since India's IT and computer services have not penetrated the Japan market in a major way, Japan has been enjoying a surplus.

4.2.2 The low level of bilateral trade in services was also commented upon in the Report of the India-Japan Joint Study Group (June 2006) which *inter alia* stated, "There are severe data difficulties in documenting trade in services in a fashion that is consistent with the negotiating framework of the WTO. On the basis of presentations made by the two sides, though it seems obvious that India is an increasingly successful provider of business services to a broad range of developed countries, while Japan is importing such services from other nations, notably China. Japan is a significant global exporter of services, often linked with overseas investment, yet the presence of Japanese services and firms in the Indian market is much less than in other parts of Asia. Demographic trends in India and Japan also suggest significant potential complementarities between the two services sectors well into the future."

4.3 CEPA Commitments in the Services Sector

4.3.1 Under CEPA, both India and Japan undertook liberalisation commitments, in some cases going beyond their 'Revised Offer' in the WTO services negotiations. These commitments were in all sectors and in all four modes. There was also a separate Annex 4 on financial services, covering prudential measures and an Annex 5 regarding measures affecting trade in telecommunication services. A separate Annex 7 also covered specific commitments for the Movement of Natural Persons. Commitments of Japan here included provisions for independent professionals, contractual service providers and teaching instructors in Yoga, Indian cuisine, Indian classical music and dance and English language.

4.3.2 Generally speaking, the commitments by Japan went somewhat beyond what was committed by Korea in the Korea-India CEPA. For example, Korea took no commitment in the health and related services while Japan permitted access in hospital services. Also, the number of sub-sectors where Japan took commitments were more than those taken by Korea. Moreover, the sub-sectors where Korea required commercial presence for Mode 1 were more numerous than that required by Japan.

4.4 Inbuilt Agenda for Further Negotiations on Services Under CEPA

4.4.1 The India-Japan CEPA also included an in-built agenda for further negotiations comprising the following:

1. Under a Sub-Committee to be established under Article 14, negotiations were to be held regarding the acceptance of Indian qualified nurses and care workers by Japan – to reach conclusion within one year but not later than two years after entry into force of agreement;

2. Under Article 78 of CEPA agreement both parties agreed to hold consultations on the feasibility of concluding a social security agreement. After such consultations the two parties were to hold negotiations in order to complete the consultations and negotiations within 36 months;

3. While there was no time limit or provision for negotiations, Article 59(3) mentioned that 'Each party shall endeavor to reduce the requirements for a service supplier of the other party to establish or maintain a representative or any form of enterprise or to be resident in its area as a condition for cross border supply of service'.

4. Article 65(2) provided for both parties to enter into negotiations regarding the possibility of recognition of the education and experience obtained, requirements and licences or certifications granted on specific services sectors with a view to reaching conclusion within 3 years of the agreement. Article 65(3) goes further asking both parties to encourage respective professional bodies to negotiate and conclude within 12 months any arrangement for mutual recognition or experience obtained, requirements etc. See also Article 65(4).

4.4.2 The implementation of CEPA has to be evaluated against the aforementioned backdrop. First, would be to analyse trade

figures and assess how different services have performed. Secondly, it would also be necessary to assess to what extent this in built agenda has progressed. Finally, stemming from the discussions held with many of the services companies active in the two markets certain conclusions and recommendations will be made.

4.5 Review of Bilateral Trade

4.5.1 Published trade figures in a disaggregated form for bilateral trade in services are hard to come by, but according to statistics obtained from JETRO, that is based on Balance of Payments Statistics of Ministry of Finance and Bank of Japan, Japan's exports to India totalled US$ 2,046 million in 2015. Japan's imports from India were US$ 1,633 million in the same year. Japan, therefore, recorded a surplus for itself of US$ 413 million. Bilateral trade trends for the last few years as in Table 16, however, indicate that the surplus is narrowing.

4.5.2 While Japan's exports of services have been hovering at a little over US$ 2 billion for the last five years, its imports from India appear to be showing more momentum particularly with a 60 per cent rise from 2013 to 2014 and with a further 22 per cent growth from 2014 to 2015, resulting in almost doubling in two years time. The surplus for Japan therefore dropped by 43 per cent from US$1,297 in 2013 to only US$ 736 million in 2014 and to only US$ 413 million in 2015.

4.5.3 Prominent sectors of India's exports were other business services, telecom, computer and information services, travel services and transportation services. Japan's export to India, comprised royalties and charges for use of IPRs, transportation services, other business services and travel services.

4.5.4 Table 17 gives the import trends of various services sectors in to Japan for

Table 16: Japan's Services Trade with India (in US$ million)

	2010	2011	2012	2013	2014	2015
Japan's export of services to India (US$ million)	2,088	2,134	2,062	2,133	2,076	2046
Japan's import of services from India (US$ million)	728	752	750	836	1,340	1633
Balance of trade for India (US$ million)	(-)1,360	(-)1,382	(-)1,312	(-)1,297	(-)736	(-)413

Source: Compiled from Balance of Payments Statistics from data of Ministry of Finance and Bank of Japan.

Table 17: Japan's Import of Top Services from India (in US$ million)

	2010	2011	2012	2013	2014	2015
Transport	100	83	48	40	47	65
Travel	143	132	167	130	128	107
Other Business Services	231	341	350	448	641	702
Telecom, Computers and Info. Services	124	124	125	139	305	502
Construction	112	40	51	61	182	216
Financial services	20	21	21	13	19	26
Total	728	752	750	836	1,340	1633

Source: Compiled from Balance of Payments Statistics from data of Ministry of Finance and Central Bank of Japan.

the last five years. Other business services that included BPO and other IT enabled services take the lead and they have shown a very steady growth from US$ 100 million in 2006 to US$ 231 million in 2010 to US$ 702 million in 2015. Telecom, computer and information services are the second which again have seen a steady growth from US$ 69 million in 2006 to US$ 124 million in 2011 and US$ 502 million in 2015. Construction services exports have seen erratic behaviour but they too performed remarkably in the last couple of years.

4.5.5 By their nature however the foregoing services trade figures may mainly reflect services of a cross border nature. They may not fully reflect data regarding earnings resulting from movement of persons. An indication of trends here may be available from figures for visas issued. According to the statistics of Ministry of Foreign Affairs of Japan, the number of work visas issued for various categories of Indian personnel have steadily risen from 1743 in 2010 to 3324 in 2014 (Table 18). Around half of these were under the categories of engineers and another 25 per cent consisted of skilled labour, professors, experts, researchers, entertainers, etc. The balance 25 per cent consisted of intra-corporate transferees. It is not clear, however, how many of these cases will come under the category of 'contractual service providers' or as 'individual professionals' as per categorisation under Annex 7 of CEPA. However, even from the overall numbers, what can be said is that while the increasing trend is welcome, and may be indicative that CEPA may be facilitating easier movement of professionals, there is definitely far greater potential for higher movement that will in turn influence trade, particularly in the IT and IT enabled sectors.

4.6 Progress on the Built in Agenda

Finalisation of the Social Security Agreement (Totalisation agreement)

4.6.1 A bilateral social security agreement was signed in December 2012 after negotiations between the two countries. It is, however, still awaiting ratification. Some subsequent changes in Japan's Pension Law and India's own Employees' Provident Fund Scheme have apparently necessitated further consultations between the two sides. Early

Table 18: Work Visas issued by Japan for Different Categories of Indian Personnel

	2010	2011	2012	2013	2014
Professors	134	130	166	149	170
Business Managers	12	13	9	8	13
Researchers	42	41	56	44	67
Instructors	2	2	2	3	1
Engineers	392	725	946	1140	1637
Specialists in humanities/ international services	92	89	105	120	188
Entertainers	102	40	80	238	97
Skilled Labour	442	376	432	180	329
Intra company transferees	517	509	537	595	813
Total (Including few other categories	1743	1931	2339	2486	3324

Source: Compiled from 'Statistics for the number of Visas', Ministry of Foreign Affairs of Japan.

finalisation would have a positive impact since the social security contribution by Indian professionals of 11 to 15 per cent is substantial and effectively forms an additional tax on the Indian professional on a short term assignment in Japan.

Acceptance of Qualified Indian Nurses and Healthcare Workers by Japan

4.6.2 Under the built in agenda it was expected that negotiations on this subject were to reach conclusion within one year but not later than two years after entry into force of the agreement. It is learnt that not much progress has been made on this issue. There are also valid doubts if the efforts needed for it will be matched by the outcome, since selected candidates have to come to Japan and take tests in language proficiency and nursing. While the annual quota is around 50,000 nurses, the success rate so far has been very low of applicants from Philippines, Vietnam, and Indonesia, countries which already have an understanding on this subject with Japan. Clearly, if nurses have to spend time in Japan, and then take tests, and the failure rate is high, not many may opt for it in the first place considering the expenses and time involved. The idea would be worth exploring, however, if as part of cooperation in the area of health, in pursuit of Chapter 13 of CEPA, training facilities can be set up in India and tests and selection processes are completed within the country and the selected nurses are able to go to Japan with the certainty that they will be inducted. In accordance with Article 27 of the Implementing Agreement on CEPA Cooperation in health includes cooperation on promoting human resource development and capacity building for health and for enhancing training opportunities.

Other Issues

4.6.3 Article 59(3) provided for the two sides to endeavour to show more flexibility towards reducing commercial presence requirements for mode 1. Article 65(2) also called as professional bodies from both parties to try and finalise mutual recognition agreements of qualifications or experience obtained on specific services. It does not appear again that any progress has been made in respect of these issues even as the need for doing so remains. It would be very important that these and other issues are regularly taken up and followed through in the Sub-Committee on services that again should meet periodically.

4.7 Progress in Certain Specific Sectors

Financial Services

Banking

4.7.1 In respect of Indian banks, both Bank of India and State Bank of India (SBI) have branches in Tokyo and Osaka. Bank of India entered Japan in 1950 and SBI in 1980. The three major banks of Japan also have presence in India with Mitsubishi Bank having five branches, Mizuho Corporate Bank having five branches and Sumitomo Mitsui Banking Corporation having one branch. In addition, the Japan Bank of International Cooperation (JBIC), the equivalent of an EXIM bank, is also having offices in India.

4.7.2 There was no specific regulatory anomaly cited by banks from either side which were seen as unfairly affecting their operations. Indian banks, however, have limitations with a largely India centric business. They are not members of the local clearing group that involves significant costs in terms of collateral. They are also not

covered by insurance for local liabilities. Like many other foreign banks in Japan they are also not involved in retail banking. One of the banks however handles the JICA account for funding Japanese development assistance projects for India. The other referred to a change in strategy the bank is adopting since 2012 to integrate with the local system and raise local liabilities and assets. In terms of any significant expansion in their lending or operations, the scope seems very limited at present.

Insurance Services

4.7.3 The New India Assurance Company (NIAC) is the first foreign insurance company to come to Japan in 1950. Presently it has seven branches countrywide. It is involved in non-life general insurance including against fire, automobile accidents, personal accident, etc. Unlike Indian banks in Japan, NIAC also offers retail insurance services.

4.7.4 From the Japanese side, there are three joint ventures in the life insurance segment and two joint ventures in General insurance that are operating in India. These are joint ventures between Japanese insurance companies and Indian business groups.

4.7.5 In terms of regulatory framework, it was learnt that in Japan the local and foreign insurance companies are treated on a different footing even if the nature of services offered is not different. The regulator Financial Services Agency (FSA) of Japan consults the General Insurance Organisation of Japan (GIOJ), which is an organisation of local insurance companies on various matters. It does not, however, hold such consultations with Foreign Non Life Insurance Agencies (FNLIA). Product approvals for foreign insurance companies also take much longer time than compared to the time frame for local companies. It does not appear that conclusion of CEPA has given any fresh impetus or improvement in treatment notwithstanding that no limitation has been placed by Japan on national treatment under Mode 3 for Insurance Services specified in its CEPA commitments. This is a suitable issue to be taken up in the Sub-Committee on Services.

IT and IT Enabled Services

4.7.6 In view of the importance this sector holds for India, discussions were held on the subject with several stakeholders, Indian companies and some members of the Japan-India IT Forum. The salient aspects relating to India's exports of IT and IT enabled services to Japan along with some suggestions are given below:

1. The Japanese IT market is valued at US$ 125 billion with a large segment also devoted to embedded systems.

2. Four local IT companies (Fujitsu, NTT, NEC and Hitachi) and one global IT company (IBM Japan) dominate at the Tier 1 level accounting for about 50 per cent of business. Over a dozen local and global IT companies operate at the Tier 2 level. At the bottom of the pyramid are around 150 to 200 companies who supply small time contracts based on low end work.

3. Currently there are 80 plus Indian IT companies who are present in Japan. These are companies who have established themselves globally and are providing services to their global clients for their operations in Japan such as multinational banks or major insurance companies or other firms. There are also several Indian companies who are also providing services to Japanese companies in areas such as

network support, maintenance, partial development, database market, etc., that constitute basically outsourced work.

4. Indian companies are also devising new strategies to enhance their presence in the Japan IT Services market. Tata Consultancy Services (TCS) have entered into a joint venture called Nihon TCS Private Limited with Mitsubishi on a 51:49 partnership from July 2014. The company has also embarked on a large cultural and language integration programme with a special unit in Pune dedicated to the Japan business.

5. In another development, WIPRO struck a strategic partnership in 2014 with Takeda pharmaceutical company, which is the largest pharmaceutical company in Japan. WIPRO will be the primary provider of IT infrastructure management services covering all of Takeda's operations worldwide. This is a multi-year deal reportedly worth over US$ 400 million for its duration.

6. Infosys won an order in September 2014 from Japan's Ryohin Keikaku Co., Ltd. owner of Muji brand stores, to implement the Indian company's big data software platform Interact Edge. The software is expected to help Muji

Table 19: Revenue of Select IT Companies in Japan

Ranking	Vendor	HQ Country	Revenue in 2013 (in million JPY)	Revenue in 2014 (in million JPY)	Market share in 2014 (in %)
1	Fujitsu	Japan	13,64,821	14,02,328	12.8
2	NTT Data	Japan	9,23,668	9,52,897	8.7
3	Hitachi	Japan	9,15,028	9,50,728	8.7
4	NEC	Japan	8,97,390	8,95,598	8.2
5	IBM	US	6,82,375	7,01,358	6.4
6	Nomura Research	Japan	3,37,543	3,59,182	3.3
38	Tata Consultancy Services	India	1,215	26,896	0.2
51	Infosys	India	6,950	7,541	0.1
56	HCL Technologies	India	4,945	5,715	0.1
57	Wipro	India	5,099	5,607	0.1
67	Cognizant	India	2,631	3,129	0.0
72	Tech Mahindra	India	2,180	2,413	0.0
73	L & T Infotech	India	1,526	2,369	0.0
75	Genpact	India	1,628	1,719	0.0
84	Zensar Technologies	India	731	794	0.0
85	KPIT Technologies	India	700	778	0.0
87	Polaris	India	720	693	0.0
94	Hexaware Technologies	India	230	267	0.0
97	ITC Infotech	India	2	0	0.0
	Total		106,77,971	109,23,617	

Source: Gartner's estimation for 2014.

generate higher sales by enabling the retailer to make personalised product recommendations to over two million customers.

7. The revenues and market shares of Indian IT companies in the Japanese market are growing steadily. An extract from Gartner's estimation for 2014 may be seen in Table 19.

8. Even as the process for securing business in Japan is much longer and language is a constraint, all of which also drive up costs, Indian companies see vast opportunities to contribute to the ever increasing growth of embedded systems, e-commerce, and the engineering and design requirements of clients and to support the global and regional supply chains of corporations.

9. There are also fourteen Japanese IT companies who have set up engineering and IT services support units in India with around 25,000 Indian professionals working for them. These include their Tier 1 companies, consulting companies like Nomura Securities and engineering companies like JFE Technologies whose Pune Centre has one hundred engineering professionals and is looking to expand further.

10. A joint statement on IT cooperation was also signed by the Indian Minister for Information and Communications Technology Shri Ravi Shankar Prasad and the visiting Japanese Minister of Economy, Trade and Industry Mr. Yoichi Miyazawa on 30 April 2015. The statement conveyed that both countries can create a win-win situation in IT and Electronic Manufacturing fields where Indian IT business and Japanese manufacturing can have synergy. The statement further noted that in the new frontiers of IT such as Internet of Things (IoT) and Big Data, high skilled Indian IT engineers and entrepreneurs can boost Indian and Japanese companies' creative business activities and promote innovation. Minister Miyazawa also expressed his view, in the Joint Statement, that attracting Indian IT engineers is essential for achieving the goal that Japan will double the number of foreign IT engineers working in Japan from thirty thousand to sixty thousand by 2020.

11 Considering the vast potential, it seems further steps towards consolidation can bring gains and they could include the following:

- The Bilateral Social Security Agreement signed on 20 December 2012 needs to be operationalised at the earliest;

- While the withholding tax level under the bilateral Double Taxation Agreement has been reduced from 20 per cent to 10 per cent for 'Technology services', and this has been a welcome move, it is learnt that an ambiguity in the Japanese text of the Agreement have resulted at times in delay and need for clarification with authorities. It may be best for the two sides to set this right with a clarificatory statement.

- The procedural requirements for visa application could be relaxed and the time taken for processing brought down. If possible, Japanese authorities may not insist on

physically receiving 'original documents' like letter of invitation for a business visa and accept to deal with them online with suitable safeguards. Also, the time taken from six to eight weeks to get 'certificate of eligibility' for work permit could be brought down. The requirement that the work visa has to be utilized within three months of issue would also need to be relaxed. (In regard to expediting visas it is to be welcomed that in the Joint Statement issued on 12 December 2015 after Prime Minister Abe's visit to India the two leaders have stressed the importance of further simplifying their visa procedures for nationals of each other for facilitating exchange between the peoples of the two countries.)

- India and Japan can enter into joint collaboration with the objective of 'Make in India' with Indian software. India and Japan could also jointly collaborate strategically in areas like IoT and Big Data. Other areas could be Robotics, Artificial Intelligence and Cyber Security. This could take the form of private-private consortium or the shape of a research center. It is interesting in this regard that the Joint Statement issued in December 2015 by the two sides on the occasion of Prime Minister Abe's visit, conveyed the invitation of the Japanese side to establish a new mechanism "Japan-India IoT Investment Initiative" to promote investment in Internet of Things related area from India to Japan.

- The emerging success stories of several start ups in India are creating a buzz even amongst Japanese companies. It remains to be seen to what extent the latter will make use of some of these start ups to provide solutions to meet their requirements. These and other developments that reflect a more advanced IT industry in India today need further India Brand promotion among Japanese companies. The India-Japan Working Group on IT, the India-Japan IT Forum in Japan and the NASSCOM-Japan Council in India can all help promote more vibrant cooperation between the two countries that can bring about a much larger presence of India in Japan than the current share of 1 per cent or so.

- It will be a good idea if the two countries were to set up an international IT University in Japan, which can be partnered by both Indian and Japanese companies. This will provide a steady pool of talent for Indian and Japanese companies and may make it easier to bridge the language and cultural divide.

- Indian companies presently send a number of Japanese interns for training in their establishments in India. Getting India visas for them, however, requires an undertaking that they will be paid US$ 2000 per month as per Indian visa regulations. This could be relaxed for such trainees whose training costs and welfare are taken care of by Indian companies.

Health Services

4.7.7 In the area of health services, there is one joint venture Takshila Hospitals, between the Kirloskar group from India and Toyota Tsusho and SECOM Medical systems, both from Japan, which is operating a 350 bedded super specialty hospital by name of Sakra World Hospital in Bengaluru from 2014.

Indian Restaurants in Japan and Japanese Restaurants in India

4.7.8 There has been a surge in the last several years in the number of Indian restaurants not only in Tokyo but also other cities of Japan. Likewise Japanese cuisine is becoming more popular in India and Japanese restaurants have grown in number in several of the Indian metros. A quantification of these numbers may be difficult and it may also not be possible to state if the coming into force of CEPA may have had an impact on their growth. CEPA, however, has a provision that *inter alia* provides for easy movement of chefs/ cooks in the form of both "independent professionals" and "contractual service providers".

Air Services

4.7.9 While Air Services are not covered by CEPA, lack of adequate air connectivity between different metros of the two countries is retarding tourist and business travel. Direct flights are only eighteen per week, eleven from Delhi and seven from Mumbai. Chennai and Bengaluru, where many Japanese companies have a presence, have no direct air links with Japan and executives from them recounted how they have to travel vis Bangkok or Colombo. It is important that this deficit gets quickly addressed.

5. Investment under India-Japan CEPA

5.1 The CEPA Investment Framework

5.1.1 The Investment chapter of India-Japan CEPA provides for a fairly friendly investor framework with national treatment and most favored nation treatment extended to both investors and to their investments. Like the India-Korea CEPA, it adopts a negative listing approach that specifies all the sectors where Japanese investments may be restrained than the more restrictive positive list approach used in the India-Singapore CEPA. It does not, however, appear that either country provided any additional market opening measure than committing their then existing policy on foreign investments, signifying the stability of the policy regime.

5.1.2 CEPA also prohibits performance requirements that go considerably beyond India's obligations under the TRIMS agreement of WTO by also proscribing conditions requiring technology transfer or exclusive supplier rights for certain regional markets or the world market. There is also provision for Investor-State dispute settlement through international conciliation or arbitration.

Has the coming into force of CEPA improved investment flows? Normally such an investment framework provides for greater security of investments to the investor. With CEPA also liberalising the framework for trade in goods and services between the two countries, it enhances the scope for investment opportunities.

5.2 Japanese Investments in India

5.2.1 Investment inflows into India from Japan have been at a higher level after the

Table 20: FDI Flow from Japan into India			
Financial Year (April-March)	FDI equity inflows from Japan (in US$ million)		Share Japan in India's total FDI Inflows (stock)
	Flow	Stock	In %
2000-01	223.66	223.66	9.08
2001-02	177.68	401.34	6.15
2002-03	411.87	813.21	8.81
2003-04	78.36	891.57	7.81
2004-05	126.24	1017.81	6.95
2005-06	208.29	1226.10	6.08
2006-07	84.74	1310.84	4.01
2007-08	815.20	2126.04	3.71
2008-09	4469.95	6595.99	7.44
2009-10	1183.40	7779.39	6.80
2010-11	1562.00	9341.39	6.88
2011-12	2971.70	12313.09	7.20
2012-13	2237.22	14550.31	7.52
2013-14	1717.75	16268.31	7.47
2014-15	2084.23	18352.31	7.38
2015-16 (April- Sept 15)	814.64	18811.31	7.23

Source: DIPP, Ministry of Commerce and Industry, Government of India.

CEPA negotiations got underway when Daiichi Sankyo made a huge investment in Ranbaxy which saw FDI inflow in 2008-09 catapult to US$ 4470 million (see Table 20). While subsequent years have not seen a repeat to the same level (and in fact Daiichi Sankyo have since withdrawn from this investment in 2015), there has certainly been a positive trending overall compared to the period prior to 2008-09. Japan in fact ranks as the fourth largest source of FDI inflow into India today.

5.2.2 All other indicators also point to a rising trend. The number of Japanese companies in India have doubled from 627 in 2009 to 1209 in 2014 and so have the number of Japanese residents from 4018 to 8313 during this period. A detailed note capturing the trends in investments in both directions may be seen at Annexure 3. What may be important to note is that while in the beginning Japanese investments were largely in the form of Joint Ventures with local partners, there are now fully owned subsidiaries of Japanese companies with several of them acquired through the M&A route.

5.2.3. Table 21 gives sector-wise break-up of Japan's FDI into India from April 2000 to September 2015 as per DIPP figures. Drugs and pharmaceuticals figured as the top sector but this ranking is likely to change with the exit of Daiichi Sankyo from Ranbaxy even as several other Japanese pharmaceutical companies have invested in India. The automobile sector, is no doubt where Japanese investments have made the maximum impact with the presence

Table 21: Key Sectors Attracting FDI Equity Inflows from Japan (from April 2000 to September 2015)				
Rank	Sector	Amount of FDI equity inflows		Percentage of FDI equity inflows from Japan
		in Rs. crores	in US$ million	
1	Drugs & Pharmaceuticals	22,046.45	4,458.27	23.26
2	Automobile Industry	18,430.75	3,501.81	18.27
3	Services Sector*	13,896.28	2,642.17	13.79
4	Metallurgical Industries	7,267.86	1,521.04	7.94
5	Electrical Equipment	5,476.38	1077.99	5.62
	Total of Above	67,117.72	13,201.05	68.88

Source: DIPP, Ministry of Commerce and Industry, Government of India.
Note: **Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis.

of most Japanese automobile majors and several of their ancillary suppliers both in the passenger car and two wheeler segments. The share of the services sector has been growing with investments now mainly in financial services, retail, hospital and IT and telecom services. Investments in steel making, electrical machinery and in the energy sectors have been the other prominent areas.

5.2.4 A JETRO survey among Japanese companies revealed that they regarded India as the most attractive medium term investment destination for the first time in 2014. They had given a No.1 ranking only for long term investment earlier. India's large and expanding market and cheaper wage costs are no doubt positive factors at a time when wage costs are rising in China and Japanese companies are also keen to diversify than placing their dependence mainly on China and ASEAN countries. It is also interesting that Japanese companies ranked India as the most promising medium term investment in the field of chemicals, electrical equipment and electronics while for automobiles and general machinery India ranked second behind Thailand.

5.2.5 More importantly, the development of the Delhi-Mumbai industrial corridor, the Chennai-Bangalore industrial corridor and the Delhi-Mumbai Freight corridor will enhance the industrial infrastructure. Several industrial townships with Japanese Cooperation are already at various stages of taking shape in Neemrana and Ghilot in Rajasthan, Ponneri in Tamil Nadu, Krishnapatnam in Andhra Pradesh,Tumkur in Karnataka, Jhajjar and Greater NOIDA in Haryana, Supa in Maharashtra and Mandal in Gujarat. There are also many industrial park initiatives underway such as the 1450 acre One Hub which is a JV between Ascendas of Singapore and a Japanese consortium, the 200 acre JV between the Japanese trading house Sojitz and the Motherson group and the most recent announcement about a JV between Mahindra Group and Sumitomo which are all targeting to attract Japanese companies in their parks located around Chennai. At the summit meeting of the two Prime Ministers in September 2014 Prime Minister Abe had also announced his intention to realise 3.5 trillion yen of public and private financing from Japan including ODA to India in five years to fund projects in the area of next

generation infrastructure, connectivity, transport systems, smart cities, etc.

5.2.6 The 2015 Abe visit to India has taken the 'Japan India Investment Promotion Partnership' some steps further with the announcement of the following two initiatives among others:

i) A 'Special Finance Facility' upto 1.5 trillion yen by Nippon Export and Investment Insurance (NEXI) and Japan Bank for Industrial Cooperation aimed at promoting FDI from Japanese companies and trade from Japan to India to support their business activities with their counterparts in India, including development, of necessary imports within and to help materialize the 'Make in India' policy of Government of India;

ii) Signing of the MoU for the introduction of Japan's High Speed Railway (Shinkansen systems) for the Mumbai-Ahmedabad sector with a highly concessional Yen loan of another 1.5 trillion yen.

5.2.7 Policy changes in India and the 'Make in India', 'Skill India' and 'Digital India' programmes are creating an interest among Japanese companies already in India to think of fresh investments. The 2014 JETRO survey found that 76 per cent of the surveyed firms will expand their business in India in the next two years. Sony shut down its production facility in India in 2004 and now imports from plants in Thailand. Its Managing Director Kenichiro Hibi has conveyed that the new policies including the measure announced to allow foreign companies manufacturing in India to directly sell online raised hopes for his company for becoming a successful base for the company's operations. The Japanese giant Softbank has moreover announced plans to invest around US$ 20 billion in solar energy power projects in India along with India's Bharti Enterprises and Taiwan's Foxcann. Other companies including Panasonic, Daikin, Sharp, Hitachi and several of the major Japanese auto companies in India are all in the process of or are proposing to increase their investments in India. What would be important here is also to get more Japanese SMEs into the country since their numbers account for only 19 per cent among companies already invested.

5.2.8. From the point of this study on CEPA however what would be important would be to try and see if some of the FDI inflows would go towards enhancing India's export capacity including for a destination like Japan. In earlier sections of this Report it has been pointed out how Japanese investment in India could possibly enable that to happen in the sea food, pharmaceuticals, garment making, food processing, set jewellery and auto component sectors in which our existing strengths can be further consolidated. Each of these sectors will need careful planning including the right kind of incentives, location and import/export facilitation that will attract potential investors. This will need a dialogue with JETRO, Japanese trading houses active in each sector, the concerned Indian export promotion councils and some of the willing state governments.

5.3 Indian Investments in Japan

5.3.1 India's outward FDI to Japan remained at less than US$ 1 million upto 2006-07 (see Table 22). There was some increase in India's OFDI to Japan in 2007-08 to US$ 42.05 million. The year 2008-09 also saw some investment by India in Japan with the total OFDI stock increasing to US$ 74

Table 22: India's Outward FDI to Japan			
Year	India's OFDI to Japan (in US$ million)		Share of Japan in India's total OFDI Stock (in %)
	Flow	Stock	
2001-02	0.67	0.67	0.07
2002-03	0.29	0.96	0.03
2003-04	0.04	1.00	0.02
2004-05	0.08	1.08	0.02
2005-06	0.76	1.84	0.01
2006-07	1.06	2.90	0.01
2007-08	42.05	44.95	0.10
2008-09	29.44	74.39	0.12
2009-10	1.16	75.55	0.10
2010-11	2.16	77.71	0.09
2011-12	9.92	87.63	0.07

Source: "Outward Direct Investment from India: Trends, Objectives and Policy Perspectives", Occasional paper no. 165, Export Import Bank of India.

million. However, on the whole, Indian investment in Japan has been very low accounting for a mere 0.07 per cent of India's total OFDI in other countries.

Figures for Japan's net inflows from India, based on Japanese statistics, also show that India's investment in Japan was practically zero up until 2006. But the period thereafter shows some growth, even if unsteady, but the overall volume still remains low. Indian investment forms just 0.06 per cent of Japan's total OFDI stock for the entire period from January 2000 to June 2015. Prominent among the investments are take-over of Kyowa Pharmaceuticals by Lupin Laboratories and Indian IT companies setting up offices in Japan. Most recently, Mahindra group has agreed to take a 33 per cent share in Mitsubishi Agricultural Machinery Co. Ltd. for US$ 25 million. As earlier mentioned, the Joint Statement on the occasion of Prime Minister Abe's visit to India in December 2015 also conveys the intention of the Japanese side to establish a new mechanism 'Japan-India IoT Investment Initiatives' to promote investment in IoT related area from India to Japan.

6. Economic Cooperation under India-Japan CEPA

6.1 The India-Japan CEPA also has a chapter on co-operation that makes the agreement more comprehensive. The Joint Study Group that preceded CEPA noted that expansion of trade and investment could be further promoted by undertaking bilateral cooperation in the broadest possible areas. The objectives of such cooperation, as spelt out in Chapter 13 of CEPA, included liberalisation and facilitation of trade and investment between the two countries, strengthening economic competitiveness, ensuring long term sustainable development and promoting human resource development and capacity building. The chapter also identified twelve specific areas:

i) Environment
ii) Trade and Investment Promotion

iii) Infrastructure
iv) Information and Communications Technology
v) Science and Technology
vi) Energy
vii) Tourism
viii) Textiles
ix) Small and Medium Enterprises
x) Health
xi) Entertainment and Information
xii) Metallurgy

6.2 In the implementing agreement of CEPA signed by both sides, further details have been set out on the scope and forms of cooperation in each of the twelve areas. Depending on the areas, these generally focus on greater exchanges of information including on policies and regulations, sharing of expertise and best practices, training and capacity building activities, promoting joint ventures and investment, organisation of seminars and conferences and undertaking of joint research and development. It was also proposed in CEPA that a sub-committee may be established on cooperation for the purposes of coordinating activities under the cooperation chapter.

6.3 It does not appear that any activity has been initiated within the framework of CEPA by the two sides in pursuit of specific provisions of Chapter 13, despite the lapse of four years. It is also not clear if any proposal was advanced by either side.

6.4 That said, economic cooperation between India and Japan is very vibrant with Japan being the largest donor country for India. Japan has been playing a very important role in assisting India through grants, yen loans and technical cooperation in several areas including infrastructure, energy, sustainable development and education. There are also dialogues taking place between the two sides on energy, science and technology, ICT, healthcare, smart cities and high speed railway.

6.5 Of particular relevance to trade and investment are the projects for improvement of trade transport infrastructure through the use of a corridor approach in the mega projects like the Delhi-Mumbai Dedicated Freight Corridor, the Delhi-Mumbai Industrial Corridor and the Chennai-Bengaluru Industrial Corridor. A large segment of Japanese cooperation has also been in the power generation and distribution sectors which again have a significant bearing on India's ability to trade or attract investment. It does not make sense to duplicate cooperation in an area under CEPA if the same is taking place even outside it. It may suffice if it can be ensured that aspects of interest to India do not get left out.

6.6 Cooperation between the two sides for example have been underway in the ICT sector with a joint working group now holding periodic meetings. Some of the specific suggestions made in this Report on IT and IT enabled services including on visa issues and in setting up an IT University in Japan could perhaps be considered by the working group on IT.

6.7 Similarly, cooperation on health that has been separately underway could perhaps take up the suggestion in this Report that a suitable training center may be established for nursing and healthcare workers so that some of them could also be available for possible placement in Japan if they are able to meet their requirements. Article 27 of the implementing agreement *inter alia* does refer to promoting human resources development and capacity building in health. The suggestions made in Para 3.5.13 of this Report for cooperation on regulatory aspects on pharmaceuticals

could also be considered under cooperation on health. In the joint statement issued on 12 December 2015, after Prime Minister Abe's visit to New Delhi, PM Modi has specifically expressed that the target regarding quantitative share of medicines in Japan would be an excellent opportunity for collaboration between Indian and Japanese pharmaceutical companies.

6.8 It would also be particularly important if cooperation under CEPA got initiated for projects that would specifically improve India's competitiveness and capacity to trade with Japan and also facilitate investments from Japan in some of these areas. Earlier in this interim Report, in the section dealing with India's exports, certain specific suggestions have been made towards enhancing India's capacity to export in the sea food, pharma, textiles, gem and jewellery, processed agricultural items and the auto component sectors. Cooperation under CEPA could be explored in some of these areas with part funding provided, if necessary, for equity or other support. In fact, in the area of Textiles, Article 25 of the implementing agreement *inter alia* refers to 'encouraging investment and joint ventures and business matching'. Cooperation in sectors like sea food or auto parts could be taken up under Trade and Investment Promotion.

6.9 Yet another issue that needs addressing while seeking to improve India's competitiveness is the low ranking that India currently has in the Logistics Performance Index. Lack of efficiency in the clearance process (speed, simplicity, on line processing capacity, single window facility, and predictability of border formalities) has been cited as one of the key elements behind India's low ranking. According to the JETRO 2014 Survey, Japanese firms that reported problems of long waiting times and complicated procedures at customs accounted for around 60 per cent of the respondents.

6.10 It would be worthwhile to engage in bilateral cooperation under CEPA for beneficial exchange of best practices in customs and other border formalities and their efficient and seamless link-up with behind the border logistics and infrastructure. The cooperation could also include visits by experts to each other's facilities and holding of conferences and workshops that can help in dissemination and discussion among a wider audience.

6.11 Some of the elements relating to Customs Procedures for possible cooperation to address the above issues have been dealt with in Chapter 2 of the Implementing Agreement of CEPA. Article 2 (3) for example provides for cooperation in the areas of research, development and testing of new customs procedures and new enforcement aid and techniques, training activities of customs officers and exchange of personnel. Article 3(2) provides for exchange of information, including best practice on the use of ICT for improving customs procedures. Article 4(3) refers to exchange of information including best practices on risk management and other enforcement techniques.

6.12 Getting more SMEs from Japan to come and invest and do business with India could be another theme that needs activation. The share of SME companies among all Japanese companies present in Thailand or in China is far greater than the estimated 19 per cent in the case of India.

6.13 Several of the aforementioned suggestions for cooperation could be encompassed under the broad rubric of helping materialise 'Make in India' Policy of the Government of India with the added dimension that the product can be exported

to Japan. These could also, therefore, be captured under the 'Make in India Special Finance Facility' of upto 1.5 trillion Yen announced in the Joint Statement issued on the occasion of Prime Minister Abe's visit to India in December 2015.

7. Cultural Factors and Business Environment in Japan

During the discussions held by the lead investigator of this study with various Indian businesspersons and other experts it was pointed out that there were several underlying cultural factors, values and local requirements and practices that uniquely characterised the Japanese market. These have a strong bearing on local business decisions and regulatory governance. Indian businesses engaging with their Japanese counterparts will need to keep these in view. Since they also impact on CEPA implementation these are briefly given below:

- Quality is an extremely important consideration in Japan. They go for high standards and there is also very little or even zero tolerance shown for any deviation. Not only the quality of the product in question, but packaging and appearance are very important aspects.

- Timely delivery is another very key element. Japanese companies are well known to structure their business plan on the basis of just in time delivery.

- As a value, there is a lot of stress on perfection, going beyond excellence, that is also a matter of local pride. Their expertise in several areas of high technology including specialised steel, high precision instruments, robotics, bullet train or earthquake resistant construction owe to this national trait. This passion for perfection can at times, however, be carried to an extended length beyond functional need that may involve time and cost.

- Cost of marketing and sales can be high. Assuring the Japanese buyer of quality may need a lot of persuasion including acceptance in other developed markets and meeting international standards. Documentary requirements can be substantial and they tend to be guided by track record. Be it pharmaceuticals or financial services, to mention a couple of them, they rely less on on-site inspection and more on a monitoring system. Once a reputation is acquired, it will be very important to protect it. Even an occasional default can affect reputation and it may need a lot of effort to restore status.

- Language is an important factor and much time in respect of documentary requirements or negotiation of contracts can get spent in translation into Japanese language. Due precautions will, however, need to be taken since in most contracts there is a provision that in case of difference in interpretation the Japanese language text will prevail.

- By nature the Japanese are not big risk takers and take decisions after great deliberation and caution. They can take a long time to give answers and patience in dealing with them would be important. But once they take a decision they tend to act on it very quickly.

- Any Indian business keen to develop longer term ties will need to align its strategy with local culture and customs, devise ways to overcome

the language factor by perhaps having local representatives or employees and provide a comfort level for customers. The Japan market is a specialised market. It is however a large market despite some shrinking at play and market realisation can be higher compared to some of the neighbouring markets.

- It may take some time and effort to gain the trust of Japanese counterparts. One auto company in Mumbai having a business tie-up with a Japanese company recounted how in the initial five years they were allowed to go into one room only in their client's company for discussions under careful supervision. It was only subsequently after a long period that all other areas of the factory were open to them. However, once they agreed on a long term relationship, the Japanese business went all out to be of help. They felt that the growth of the Indian company was in their interest.

- What is said in a formal business meeting is important. It would also be important to recognise what is not. Silence or absence of comment does not mean assent. A lot also gets discussed doing social meetings after office hours in Nomikais (drink parties) which are no less important. Trust building gets a fillip during such interactions. It would be important to recognise and participate (even if non-drinking) in the local practice of 'Nominification'.

- Many observed that the normal tendency and preference among Japanese companies is to prefer working with other Japanese companies. Informal cartelisation exists and there is also the invisible hand of the distribution network. This bias towards local companies also is noticeable among Japanese regulatory agencies. Even the Japanese consumers have a natural preference for products of Japanese companies. What opens up space for India's export however are our largely complementary areas of interest.

- Nexus between the government and local private companies exist beyond what may be prevalent in western countries. There is also for example the commonly prevalent practice of large corporate houses employing former senior government servants (Amakudari system) that provide for coordination and link with government machinery.

- The large Keiretsu groups that prevailed and contributed to Japan's rapid industrial growth in the last several decades of twentieth century do not have the same preponderance as they did earlier with crossholdings between companies in each group with certain common directors and funding arrangements. But many of these large groups continue with perhaps weaker linkages.

- Japanese trading houses termed as 'Sogo shoshas' play an important role and account for, as per one estimate, 33 per cent of Japan's imports and 18 per cent of its exports and they engage in offshore trading as well. While they are referred to as general trading companies, they perform a diversified role including engaging in logistics, plant development and other services as well as international resource exploration. Some of them also import

food or other items, process them including in the form of labeling and packaging, distribute and sell through convenience or retail stores in Japan in which they hold a stake. Most of the major corporate groups including Itochu, Mitsubishi, Marubeni, Sojitz, Mitsui and Sumitomo have such trading arms that are also active in India. For an Indian SME export company which may find it difficult to access the Japanese market directly, using a Sogo shosha intermediary could be a useful mode.

- There is a deep feeling of pride among the Japanese people about what they have achieved economically. There is also a strong sense of duty and patriotism among the people. Because of the high frequency of the bullet train for example, even if at times the utilisation is low, there is a high per head charge. But people pay and also like the convenience.

- The Japanese labour regulations are very protective of employees. Salaries are also generally based on age.

- While Japanese businesses and agencies like JETRO and JCCII aggressively pursue Japanese companies' interests abroad including taking up perceived barriers in foreign markets, the government regulatory agencies of Japan can act quite restrictively nationally in respect of imports. Issues are often dealt with in silos in a bureaucratic manner. Discussions held without preparations can simply elicit a response that the concerned specialist is not available. It is critical that discussions with government agencies are held in a focussed and sustained manner with pre-identified topics.

- Notwithstanding CEPA, there can be a response that regulatory agencies cannot extend any special consideration to any country. This will need persistent follow-up and leveraging.

- Indian companies and business associations readily acknowledge that several Indian companies are today employing Japanese management practices aimed at enhancing productivity and quality management including principles like 5S. It needs also to be mentioned that several Indian companies, specially in the auto sector, have received the Deming Prize awarded annually by the Union of Japanese Scientists and Engineers for excellence in applying the principles of Total Quality Management (TQM).

8. How do they all add up?

8.1 Japan and India are the second and third largest economies in Asia. While CEPA was expected to spur greater trade and investment between them, the results have been far more modest. Their economic engagement, particularly in trade, is still far below potential. There has been no significant change in market shares. Japan's share in India's imports has hovered around 2.3 per cent and India's share in Japan's imports has been less at around 0.80 per cent.

8.2 The utilisation of CEPA for trade in goods is, however, steadily increasing in both directions. India has benefitted from CEPA concessions in increasing its exports in the seafood, pharma, garments, dyes and pigments, leather and a few other sectors. CEPA concessions are, however, not relevant for about 75 per cent of India's exports because duties on them are in any case zero in Japan even on MFN basis.

8.3 As for Japan, its increase in export of certain basic steel items have caused concern to the domestic industry in India. Duties on such steel items will also be zero from 2016. A sharp surge in such steel imports also from China, Korea, etc., have resulted in the government imposing a WTO authorised safeguard measure of 20 per cent duty for 200 days. In January 2016, the Government of India also imposed a Minimum Import Price (MIP) on various iron and steel products for a period of six months for all countries. It may be important for India to also notify the specific safeguard measure provided for in Article 23 of CEPA so that it is available for possible use in case of sharp surges in import of any product from Japan facilitated by CEPA concessions that causes serious injury to the domestic industry.

8.4 The other item on which some concern was heard from the domestic industry by the RIS research team was on increasing imports of copper wire that rose from US$ 8 million in 2013-14 to US$ 65 million in 2014-15. But the surge appears already subdued in 2015-16. Otherwise the bulk of Japanese exports are in areas of its strength viz. machinery, electrical and electronic items, auto products, ships and vessels and precision instruments. Imports of plastics also grew significantly. Most of these items are in the B-10 category and collectively their performance does not appear to have been a cause for domestic concern. Duties on them will, however, progressively come to zero in 2021 and imports of certain items like plastics could see further growth. Furthermore, with increase in Japanese ODA for several projects including for the Shinkansen bullet train project and expected further FDI from Japan in coming years, imports from Japan could see a rise.

8.5 India has the potential to increase its exports further in the seafood, garments, chemicals, pharmaceuticals and jewellery sectors by enhancing its competitiveness and export capacity. Steady erosion of Chinese competitiveness in the Japanese market in certain apparel segments opens up an opportunity for Indian exporters. Japan's policy of moving towards greater use of generics could also help India increase its API and generics exports to Japan.

8.6 More regulatory cooperation on pharmaceuticals between India and Japan can be a facilitating factor. In the recent Joint Statement of December 2015 Prime Minister Modi has already alluded to this by noting that Japan's target regarding quantitative share of generic medicines would be an excellent opportunity for collaboration. Early signing of the MoU on regulatory cooperation that has been under discussion between the Drug Controller General of India and the Pharmaceutical and Medical Devices Agency of Japan would be important. If PMDA is able to open an office in India, as suggested in some news reports,[2] this too would be a timely step.

8.7 India's exports of several agricultural products including fresh fruits and vegetables like mangoes, for example, and items like sesame seeds can grow if the sanitary and phytosanitary and pesticide residue issues can be taken up more systematically and mutually recognised conformity assessment systems are in place even domestically in India.

2 See *Economics Times*, 15 October 2015, "Japan's drug regulator PMDA set to open office in India."

This would also be necessary in respect of meeting the stringent anti-biotic residue levels and other standards in Indian sea food exports that can provide more stability to bilateral trade in this key area.

8.8 India's exports of computer and IT services to Japan have begun to show momentum even as India's share is less than 1 per cent of Japan's IT services market. The liberalised provisions under CEPA particularly on movement of professionals could be a contributing factor. Indian firms are also devising Japan specific market strategies to address the language and other culture specific factors. The surge in start ups in India, particularly those in the services side, is also spurring some excitement among Japanese corporates. This may be a crucial time to provide further impetus to greater bilateral trade in IT and IT enabled services.

8.9 It would be very important to ensure immediate ratification of the Totalisation Agreement signed by the two governments in December 2012. It may also be the right time for mounting greater India brand promotion in IT in Japan. Launch of a joint public private partnership in Internet of Things (IoT) and Big Data between the two countries could be one initiative. It will be interesting in this regard to see how the new mechanism 'Japan-India IoT Investment Initiative' in the 2015 Joint Statement to promote investment in IoT related area from India to Japan will be realised. While the Joint Statement has also proposed establishment of joint research centres in IT in India, another initiative could be setting up of an international IT University in Japan with partnership of Japanese and Indian companies that can make available a steady pool of talent for widening cooperation between the two countries.

8.10 India is currently the most favoured destination among Japanese companies for investment both in the medium and in the long term. But while Japan is the fourth largest investor in India, India's share in Japan's total FDI stock worldwide was only 1.13 per cent by the end of 2014 as per JETRO figures. China (8.69 per cent) and even smaller ASEAN countries like Thailand (4.36 per cent), Singapore (3.80 per cent) and Indonesia (1.97 per cent) had far higher shares. Intra-firm trade involving Japanese affiliates in these countries with their parent companies in Japan also accounted for higher level foreign trade between Japan and these countries.

8.11 The large trade related infrastructure that Japan is collaborating with India to build including through the corridor approach with several industrial townships could be a pull factor. Both countries need to work together to enhance the Japanese company presence in India (currently 1209) including SMEs and strive to strengthen supply chain networks.

8.12 CEPA could play a significant role if trade, investment and cooperation can all be judiciously used to support and drive one another. The mutually supportive link could be pushed in the following four broad areas which are not mutually exclusive. These would also mean widening the Japanese support for the 'Make in India' initiative to a 'Make and Trade from India' initiative that also targets exports of some of the output to Japan. Setting up a few Special Economic Zones near port based locations that can attract firms (both from India and

from Japan and their joint ventures) to create export capacities[3] will be a crucial enabler in this regard.

a) Enhancing India's competitiveness and capacity in existing sectors of export strength and providing it more stability

Steps here could be several. These could include speedy and simplified customs procedures, improved behind the border logistics, establishment of Japanese recognised conformity assessment bodies, securing a helpful role from Japanese trading houses (Sogo Shoshas) for promoting products of SMEs and trade and investment promotion in Japan that can overcome language and culture barriers; and investment inflows from Japan in these sectors including in the many industrial townships and industrial parks that are coming up with Japanese collaboration.

b) Creating new capacities for value added opportunities in existing export sectors

The steps that could be taken in this regard could include promotion of inflow of investments from Japanese companies or collaboration with Indian companies in establishing value added manufacturing in fisheries (processed seafood relating to shrimps, squids, molluscs and other fishery products from India), agriculture (processed products using a variety of agricultural products including tea, sesame seeds and mangoes), apparel (trousers and other formal wear and higher value items) , leather and other areas in all of which value addition is presently taking place in China, Vietnam or Thailand (with Indian raw material or inputs in several cases).

c) Creating capacities in new areas of manufactured exports in automobiles and other manufacturing sectors

Taking this initiative forward could include promoting investment inflows from Japan into industrial townships aimed not only to meet domestic demand but also to enhance export capacity, further Japanese investments in the auto sector for enabling a more entrenched auto hub status for India and for securing a role in next generation vehicles, and widening Japan's investments into other sectors including chemicals, machinery and electric and electronic items that can integrate India more in the supply chain system.

d) Greater integration of services exports from India in the manufacturing sectors

Creating a more distinct collaborative model which uses Indian IT expertise, engineering skills and availability of professionals with Japanese enterprise, technology and capital.

8.13 There are also several implementation issues raised in this Report and suggestions have also been made for dealing with them. These relate to correlation of trade and investment figures

3 Dr. Arvind Panagariya, Vice-Chairman, The National Institution for Transforming India (NITI) Aayog has proposed this idea of 'Coastal Economic Zones' in the article 'Take Off from the Coast' that appeared in the *Times of India*, 19 February 2016. The idea is to attract large sized firms to make investments in labour intensive export sectors located around ports to have economies of scale. This study would second such an initiative that could also enlist cooperation from foreign investors including from Japan.

of the two sides that are quite varying, need for concordance between CEPA utilisation figures, settling some of the pending SPS and other standards issues, mutual recognition of professional qualifications, visa related issues and non-implementation of several agreed measures on cooperation. Several more implementation issues will also arise if it is decided to pursue a strategy on the lines of Para 8.12. All of them can be usefully taken up in the six Sub-committees and the Joint committee established under CEPA to review and monitor implementation. It is learnt that these Sub-committees and the Joint Committee have not met since 2012 after the first two meetings. If so, it would be important that action is taken speedily. Even as there may be individual bilateral mechanisms to take forward cooperation in certain sectors like energy, pharma, science and technology or IT, CEPA provides a unique forum that can look at trade, investment and cooperation holistically so that there is growth and mutuality of benefit. Increasing collaboration with Japan in the form of railway projects or the expected increase in FDI from Japan will help Japan in increasing its exports to India in the coming years. Unless effective measures are taken to put India's exports to Japan on a wider base and provide it more stability, the deficit can get widening.

8.14 Even as CEPA may not have brought about sharp surges in India's exports yet, its benefits cannot be underestimated. It is quite possible that in the absence of CEPA, India's exports of items like garments, pharma, seafood, leather goods, etc., may not have performed as well as they have done since the competing ASEAN countries have FTAs with Japan and have concessional tariffs for most of these items. In any case, at a time when there is a global move towards more FTAs it may be important to focus on how we can build further on existing FTAs in line with our interest. This Report has drawn attention to several items where Indian exports may be able to do better if they received the same tariff concessions that certain ASEAN countries are receiving under their respective EPAs. This is specially so for certain fishery products, leather items, set jewellery, a few agricultural products, etc. This may need to be addressed during the review of CEPA or even in the ongoing RCEP negotiations. Attention has also been drawn to certain cases of inverted duty structure that would also need to be addressed.

9. Conclusions

9.1 The Foreign Trade Policy Statement of the Government of India for 2015-20 has stated that the projected gains from CEPA with Japan have not materialised to the extent expected (refer Paras 2.16 and 2.17 of this Report). It has indicated that the Government will run special programmes for trade promotion in Japan in sectors such as textiles, garments, IT services, pharmaceuticals, leather and agro products. The idea is to enable our exporters overcome language constraints, demanding product standards and complex business modalities. On investment, considering that Japan is already one of India's largest investment partner, the Statement foresees that several ongoing initiatives are likely to further increase Japanese investment in India and has urged Indian investors to take part in the process of investment generated trade.

9.2 It is very important that more outreach efforts are undertaken domestically not only for a better understanding of CEPA and its various provisions among all the stakeholders but also for greater awareness about cultural factors, business practices and local regulatory expectations that are quite unique to Japan. What this Report

additionally recommends are measures to be undertaken with Japanese cooperation in improving India's competitiveness and capacity in existing sectors of export strength, setting up investments also in value added products in these areas in conducive locations near ports, creating capacities in new areas of manufactured products including in next generation auto products and bringing about greater integration of Indian IT services exports in the manufacturing sectors in Japan and Japanese invested enterprises elsewhere. This would require widening the Japanese support for the 'Make in India' initiative to a 'Make and Trade from India' initiative that also targets exports to Japan.

9.3 These will require actions from both India and from Japan. This Report contends that the CEPA framework, that also includes provisions for cooperation in identified areas, already has mechanisms for this purpose in addition to other forums for bilateral cooperation. It is important that they are fully utilised.

Annexure 1

India's Exports to Japan: Impact of India-Japan CEPA

Although Japan was the largest economy in Asia till recently, and it is now the second largest, next only to China, India's exports to Japan have not been commensurate with the latter's economic size. India's exports have gone more to traditional markets like EU, US or South East Asia and other regions in a larger way. From Table A.1.1 it is seen that Japan's share in India's total exports has hovered around 2 per cent. Japan's imports have also been largely from countries such as China, US and Australia and India figures at only 24th position among its import sources. High quality standards with little tolerance for flexibility and tight time schedule were cited as key factors by India's exporters, for Japan being seen as a difficult market.

India's export to Japan in recent years is given in Table A.1.1. It indicates a significant shift to a higher level around 2011-12 coinciding with CEPA coming into force when a large percentage of items became duty free for India in the Japanese market. However, if a comparison is made between India's exports to Japan and India's global exports, during a four year period before and after CEPA, India's exports to Japan increased by 57.83 per cent and India's

Table A.1. 1: Comparison of India's Global Exports and Exports to Japan

Year	India's Exports to Japan (in US$ million)	Growth Rate of Exports to Japan (in %)	India's Global Exports (in US$ million)	Growth Rate of India's Global Exports (in %)	Share of Japan in India's Global Exports (in %)
2007-08	3858.27	34.53	163131.66	29.05	2.37
2008-09	3025.51	-21.58	185294.86	13.59	1.63
2009-10	3629.35	19.96	178750.89	-3.53	2.03
2010-11	5090.99	40.27	249815.03	39.76	2.04
2011-12	6328.32	24.30	305963.46	22.48	2.07
2012-13	6099.84	-3.61	300400.08	-1.82	2.03
2013-14	6813.89	11.71	314404.73	4.66	2.17
2014-15	5385.39	-20.96	310571.97	-1.22	1.73

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.1. 2: Japan's Imports from India			
Year	Japan's Imports from India (US$ million)	Japan's Global Imports (US$ million)	India's Share in Japan's Total Imports (in %)
2009	3732.85	552251.96	0.68
2010	5658.29	691447.21	0.82
2011	6789.26	853069.79	0.80
2012	7011.14	888584.13	0.79
2013	7137.35	838889.08	0.85
2014	7020.18	817102.52	0.86
2015	4870.12	648342.71	0.80

Source: Japan External Trade Organisation (JETRO), October 2015 (https://www.jetro.go.jp/en/reports/statistics/).

global exports by 58.48 per cent. India's exports to Japan did not show any dramatic rise following implementation of CEPA.

Annual figures for India's exports to Japan have themselves shown an erratic trend rising in some years and declining in others. This is because exports of primary products that have had large shares in India's export basket, viz. petroleum products, oil meals and iron ores have depended on their changing international prices or their domestic supply constraints. Since most of these items have zero MFN duties in Japan, CEPA has not been a factor in their export trends. If these three items were taken out of the export basket there is a clearer trend evident in the growth of exports which also takes a higher trajectory following the conclusion of CEPA. There was, however, a decline in 2014-15 which is perhaps due to the weakening of Japan Yen during this period vis-a-vis Indian Rupee that may have made items more expensive for Japanese buyers.

However, Japanese figures for imports from India available with Japan External Trade Organisation (JETRO) show that Japanese imports from India increased steadily in the period after the CEPA implementation (Table A.1.2) from US$ 5.65 billion in 2010 to US$ 7.13 billion in 2013. In 2014 there was a slight decline which, however, exacerbated with a steep reduction of 30 per cent in 2015 when there was also a global slowdown. India's share in Japan's total imports remained at about 0.80 per cent throughout the period.

Table A.1.3 gives comparative figures for India's top exports to Japan in the year 2014-15 which account for 88 per cent of India's exports to Japan. Mineral fuels (HS 27) constitute the single most important set of items with a share of 34 per cent. Exports of these products, however, declined considerably from US$ 3 billion in 2013-14 (44 per cent share) to US$ 1.85 billion in 2014-15. On the other hand, exports of certain other products such as fish and crustaceans (HS 3), machinery and mechanical appliances (HS 84), vehicles and automotive parts (HS 87), electrical machinery and equipment (HS 85), chemical products (HS 38), edible fruit and nuts (HS 8) have shown a more steady upward trend. Exports of a few other products such as ores (HS 26), cotton (HS 52) and Inorganic chemicals (HS 28) have on the other hand shown a decline.

Figures for Japanese imports from India (2014), as maintained by Japan's customs department show that Japanese imports

Table A.1. 3: India's Top Twenty Exports to Japan						
Chapter	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1987.34 *39.04*	2639.86 *41.72*	2461.62 *40.36*	3006.12 *44.12*	1852.69 *34.41*
3	Fish and crustaceans, molluscs and other aquatic invertebrates	301.79 *5.93*	408.21 *6.45*	343.38 *5.63*	396.65 *5.82*	432.78 *8.04*
29	Organic chemicals	182.84 *3.59*	264.38 *4.18*	291.13 *4.77*	311.67 *4.57*	343.98 *6.39*
71	Natural or cultured pearls, precious or semiprecious stones, precious metals, clad with precious metal and articles thereof; imitation jewellery; coin	279.89 *5.50*	372.25 *5.88*	346.98 *5.69*	348.55 *5.12*	283.53 *5.27*
72	Iron and steel	373.52 *7.34*	201.33 *3.18*	243.25 *3.99*	274.81 *4.03*	245.17 *4.55*
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	103.88 *2.04*	132.83 *2.10*	158.62 *2.60*	226.11 *3.32*	228.46 *4.24*
26	Ores, slag and ash	174.38 *3.43*	316.25 *5.00*	253.4 *4.15*	306.37 *4.50*	217.52 *4.04*
62	Articles of apparel and clothing accessories not knitted or crocheted.	131.26 *2.58*	199.34 *3.15*	192.86 *3.16*	192.0 *2.82*	169.11 *3.14*
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	36.16 *0.71*	61.16 *0.97*	118.99 *1.95*	133.29 *1.96*	147.88 *2.75*
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	66.89 *1.31*	86.74 *1.37*	136.41 *2.24*	129.17 *1.90*	125.55 *2.33*
99	Miscellaneous goods	24.0 *0.47*	17.19 *0.27*	25.85 *0.42*	109.7 *1.61*	94.65 *1.76*
38	Miscellaneous chemical products	59.64 *1.17*	61.84 *0.98*	70.22 *1.15*	112.0 *1.64*	84.65 *1.57*
52	Cotton	80.1 *1.57*	80.57 *1.27*	57.68 *0.95*	70.02 *1.03*	65.11 *1.21*
32	Tanning or dyeing extracts; tannins and their derivatives Dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	41.02 *0.81*	52.8 *0.83*	49.03 *0.80*	62.54 *0.92*	62.86 *1.17*

Table A.1.3 continued...

Table A.1.3 continued...

Chapter	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
8	Edible fruit and nuts; peel or citrus fruit or melons.	41.94 *0.82*	56.0 *0.89*	54.05 *0.89*	54.17 *0.80*	59.72 *1.11*
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	32.57 *0.64*	53.45 *0.84*	55.28 *0.91*	57.25 *0.84*	56.75 *1.05*
73	Articles of iron or steel	31.24 *0.61*	50.16 *0.79*	56.12 *0.92*	67.93 *1.00*	48.01 *0.89*
12	Oil seeds and olea. Fruits; misc. Grains, seeds and fruit; industrial or medicinal plants; straw and fodder	5.46 *0.11*	9.21 *0.15*	19.51 *0.32*	40.93 *0.60*	45.55 *0.85*
13	Lac; gums, resins and other vegetable saps and extracts	20.41 *0.40*	38.29 *0.61*	56.7 *0.93*	52.41 *0.77*	45.09 *0.84*
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, or radioactive elements or of isotopes	43.76 *0.86*	76.16 *1.20*	95.62 *1.57*	58.58 *0.86*	44.39 *0.82*
Total of Top 20 Exports		4018.09	5258.65	5168.54	6097.63	4739.05
Total Exports to Japan		5090.0	6327.12	6098.85	6813.05	5384.51
Share of Top 20 Exports to Total Exports		78.94	83.11	84.75	89.50	88.01

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.
Note: *Figures in italics indicate share to total exports during the year.

from India comprise about 40 per cent of imports of mineral fuels and 10 per cent of organic chemicals. Other important import items from India are gems and jewellery and fish and crustaceans with a share of more than 6 per cent each. It is interesting to note that certain items such as residues and waste from food industries (HS 23), leather articles (HS 42) and salt and sulphur, earths & stone, plastering materials; lime & cement (HS 25) and coffee, tea, mate and spices (HS 9) and Articles of apparel and clothing accessories, knitted or crocheted (HS 61) also figure in Japan's list of top twenty imports from India though they do not figure in India's top exports to Japan. On the other hand, miscellaneous goods (HS 99), miscellaneous chemical products (HS 38), articles of iron or steel (HS 73) and oil seeds (HS 12) are not amongst the top twenty imported items by Japan from India.

In terms of the changing composition of the export structure between the pre- and post-CEPA implementation periods, Optical and photographic equipment (HS 90), animal or vegetable fats and oils (HS 15), ships, boats and floating structures (HS 89) and coffee, tea, mate and spices (HS 9) lost their place among India's top twenty exports to Japan. On the other hand, exports of vehicles other than railway or tramway rolling stock (HS 87), other made up textile articles (HS 63), articles of iron or steel (HS 73) and pharmaceutical products (HS 30) have performed well and secured a place in India's top twenty exports to Japan in the Post CEPA implementation period.

Further, certain products have witnessed marked decline in the period after the implementation of the CEPA such as meal of soybean (HS 23040030), whose exports fell

very sharply from US$ 454 million in 2010-11 to US$ 22.42 million in 2014-15 despite the elimination of tariff on this product in 2011. Domestic soya crushers could not keep up with declining international prices. Japan's imports of soybean meal from other sources have, however, been increasing in the same period with a sizeable share being sourced from China which remains the top most supplier of this product to Japan. India which ranked second as Japan's source of imports for this product in the year 2012 and 2013 fell to the 5th place in 2014, with US, Korea and Paraguay at the 2nd, 3rd and 4th places respectively. Other products which witnessed a sharp decline in this period are tea, turmeric and parts of aeroplanes/ helicopters. While India is the top most source of import for turmeric in Japan, it faces competition from China. China and Sri Lanka are India's major competitors for tea in the Japanese market.

In what follows, export trends will be further analysed for the top twenty HS chapters individually.

Chapter 27: Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes

Exports of mineral fuels to Japan rose steadily in the period just following the implementation of CEPA from US$ 1987 million in 2010-11 to US$ 3006 million in 2013-14. In 2014-15, however, there was a sharp decline with exports falling to US$ 1852 million on account of declining prices. The trend in bilateral exports of these products closely mirrors the trend in India's overall exports of these products which declined in the year 2014-15. In terms of tonnage, there was a sharp decline in India's export of mineral fuels to Japan in 2011-12, similar to the decline seen in India's global exports of these products. Japan's global imports of mineral fuels have also varied in the period, increasing to US$ 302 billion in 2012 and declining thereafter to US$ 262 billion in 2014.

According to import figures maintained by Japan, imports from India of products belonging to this Chapter show a steady rise from US$ 1.79 billion in 2010 to US$ 2.9 billion in 2014. In 2015, however, there is a significant decline to US$ 1.18 billion till August and this is largely due to the steep decline in oil prices. In terms of quantity as well, Japan's import of mineral fuels from India has increased from 39,44,849 Kilolitres (KL) to 42,80,492 Kilolitres between 2010 to 2014. Further there is a decline in 2015 as per the monthly figures provided by the Japanese customs.[4]

As for specific items of export, as per DGCIS figures, India's major exports consisted of motor spirits, petroleum oils and oils obtained from bituminous minerals and other waste oil (see Table A.1.4). Exports of other oil and oil products of distillation of high temperature coal tar, which amounted to US$ 339 million in 2010-11, declined significantly in post-CEPA implementation period to US$ 7.76 million in 2014-15. Similarly exports of fuel oil showed some promise in the year just succeeding the CEPA implementation from US$ 24 million

[4] Imports of Mineral fuels from India declined to 235021 KL in the eight month period upto August 2015 compared to 379935 KL in the same period in 2014.

Table A.1. 4: India's Exports to Japan of Mineral Fuels						
HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
27011990	Other coal w/n pulverised but not agglomerated	17.69				
27012090	Other solid fuels from coal	22.98				
27079900	Other oil and oil products of distillation of high temp. Coal tar, etc.	339.99			31.85	7.76
27101219	Other	640.81	1247.8	1223.2	263.24	420.27
27101290	Other	475.05	814.04	244.57	135.11	156.93
27101950	Fuel oil	24.48	96.45		0.67	0.12
27101990	Other petroleum oils and oils obtained from bituminous minerals n.e.s	396.03	379.48	957.84	2418.2	1173.5
27109900	Other waste oil	69.84	101.18	35.29	155.64	93.01
Total of Top Exports to Japan		1986.9	2639.0	2460.9	3004.7	1851.6
Total Exports to Japan under the Chapter		1987.3	2639.9	2461.6	3006.1	1852.7
Share of Top Exports to Total Exports		99.98	99.97	99.97	99.9	99.94

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

in 2010-11 to US$ 96 million in 2011-12, but fell sharply thereafter to US$ 0.12 million in 2014-15. On the other hand, exports of petroleum oils and oils obtained from bituminous minerals have done reasonably well in the period after the CEPA was implemented with exports increasing from US$ 396 million in 2010-11 to US$ 2.4 billion in 2013-14. However, consistent with the overall decline in exports of mineral fuels to Japan in 2014-15, exports of these products too fell to US$ 1.1 billion in 2014-15.

On the other hand, as per Japanese import data, their main item of import, amounting to almost 95 per cent of its imports from India, was Naptha (HS 271012181) with the balance coming from motor spirits, fuel oils, etc. There is clearly a mismatch vis-a-vis DGCIS export figures and discussions with Indian refineries appear to confirm that our predominant item of exports to Japan is Naptha.

It is also interesting to note that while import of Naptha is free even on MFN basis, for motor spirits and fuel oil, there is a CEPA concession on the base rate which, however, is itself quite nominal. It is unlikely therefore that the CEPA tariff concessions are making any significant difference to trade in these products which are governed more by global dynamics of oil trade.

Chapter 3: Fish and crustaceans, molluscs and other aquatic invertebrates

India's exports of fish and crustaceans to Japan increased from US$ 301 million in 2010-11 to US$ 432 million in 2014-15. However, unlike the trend in India's global export of these set of products which increased steadily in the same period, exports to Japan have shown variation. Japan's global imports of these products increased from US$ 11.6 billion in 2010 to US$ 13.9 billion

Table A.1. 5: India's Exports to Japan of Fish and Crustaceans							
HS Code	Description	Exports to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
3037999	*Other fish, frozen excl. Fish filets	15.9	7.0				
3042990	*Other frozen fish filets	15.2	13.6	7.2			
3049900	Other fish filet and fish meat excl. Fresh or chilled, frozen filets	5.5	44.2	58.1	59.8	69.9	
3061210	Whole cooked lobsters (homarus spp) frozen	3.4	3.5	2.5	2.6	2.0	
3061290	Other frozen lobster			5.5	17.8		
3061711	Accelerated freeze dried (AFD)	20.7	16.1	5.2	8.5	9.5	
3061719	Other scampi	174.2	264.4	214.2	223.6	304.3	A
3061790	Other shrimps and prawns	43.2	44.1	24.9	20.2	36.1	A
3061900	Other frozen crustaceans	0.2		2.7	33.9	0.1	
3074120	Squids live fresh/ chilled	2.9	1.7	2.0	2.2	1.3	
3074910	Squid tubes frozen	6.5	5.4	6.6	7.2	2.8	
3074920	Whole squids frozen	2.6	1.5	1.6	1.1	1.1	
3074990	Other squids	1.3	1.7	2.0	2.4	1.3	
Total of Top Exports to Japan		291.6	403.2	332.5	379.2	428.3	
Total Exports to Japan under the Chapter		301.8	408.2	343.4	396.7	432.8	
Share of Top Exports to Total Exports		96.6	98.8	96.8	95.6	99.0	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

in 2012 and declined thereafter to US$ 11.4 billion in 2014.

India's major exports to Japan in this chapter are shrimps and prawns and meat of fish (see Table A.1.5). Exports of shrimps and prawns (HS 030617) registered a significant increase in the period after CEPA came into force although there was a dip in 2012-13 that could be ascribed to a temporary problem related to the usage of antioxidant ethoxyquin used in feed for shrimps for which a standard had not been fixed at that time. The increase was steadier in respect of export of fish meat which rose from US$ 5.5 million in 2010-11 to US$ 70 million in 2014-15. However, given the huge market size in Japan for these products,

there is considerable scope for India to further consolidate its export of these products to Japan. India's major competitors for these products in the Japanese market are Vietnam, Indonesia, Argentina, Thailand and China.

Consultations with the Marine Products Export Development Authority (MPEDA) brought forth the following aspects:

i. Frozen shrimp is the most important marine product traded from India to Japan with a share of 38.6 per cent in quantity and 69.8 per cent in value. India was the second largest supplier of frozen shrimps to Japan after Vietnam in 2014.
ii. The MFN tariff on shrimps is also 1 per cent as against the CEPA tariff of zero duty. Not all exporters, however, appeared to be using CEPA provisions in view of the negligible difference.
iii. India's shrimp exports underwent a significant change in mix of species during this period. Black tiger prawns, which commanded higher value, are exported less (present exports of these varieties are confined to those from Bengal and Orissa) as against increased Vannamaei variety that is less disease prone.
iv. Indian exporters would need to adhere to the strict quality standards maintained by Japan, particularly in respect of antibiotic contaminations. There were already ten incidents of antibiotic contaminations in farmed shrimp consignments from India till October 2015. The Export Inspection Council (EIC) and MPEDA would need to step up overall monitoring and introduction of strict measures for compliance. A few Indian exporters not undertaking due diligence invites 100 per cent check of all imports from India into Japan that brings delays to all exporters and also dents the national image. Use of MPEDA certifications for tested products could be another mechanism.
v. As for supply of fish meat, the MFN tariff on frozen fish meat (called Surimi) is 3.5 per cent. India exported both Frozen Itoyori Surimi variety and 'other frozen fish meat', largely the latter. While there is no CEPA concession for the former, the latter item (HS 030499999) is in the B-10 tariff reduction category and the CEPA tariff is presently 1.9 per cent. On Itoyori Surimi, Malaysia and Vietnam are likely to receive zero duty tariffs if TPP came into force which will give them an edge. On non-Itoyori Surimi, India's CEPA duty will reduce to zero only in 2021. On the other hand, ASEAN countries already receive duty free treatment. Another higher value equivalent item from US, Alaska Pollack, presently attracting 4.2 per cent duty, is also likely to see duty elimination with the implementation of TPP.
vi. While some exporters indicated that they were benefitting from the CEPA concessions, others indicated that they faced problems because of Rules of Origin (ROO) for all HS Chapter 3 items required "manufacture in which all the materials used are wholly obtained". On the other hand, one of the main problems encountered during freezing of Surimi is the deterioration of proteins. According to MPEDA, this is prevented by incorporating cryoprotectants such as polyphosphates, sugars, etc. Tetra Sodium Pyrophosphate (TSPP) was the most commonly used cryoprotectant in the commercial manufacturing of

Surimi and was normally added at the rate of 0.15 per cent. Although this may be negligible, since this was an imported chemical, it was learnt that there were cases where the Japanese customs rejected the Indian Certificate of Origin that indicated it was a wholly obtained product.

vii. MPEDA have in fact suggested that the Rule of Origin should be amended to "change of heading" not only for HS Chapter 3, but also for processed fishery items in HS Chapter 16.

viii. There would be greater benefit if duty concessions were also available under CEPA for cuttle fish and squids (HS 030749190) and clams (HS 030799132) which were excluded and which attracted MFN duties of 5 per cent and 7 per cent, respectively (April 2015). There was considerable potential for export of these items to Japan.

ix. India is also well placed to export processed shrimp and Indian exporters have started offering products such as cooked shrimp, sushi shrimp, stretched shrimp (Nobashi), kneaded products and marinated products. Unit values for processed squid and cuttle fish are also high. The percentage of value addition done in India, however, has to go a long way compared to that in Thailand, Indonesia, Vietnam or China. Interestingly, many Japanese importers ship raw material from India to South East Asia or China, add value, and re-export to Japan, EU and US. Creating facilities for value addition near a suitable port location along with making available items needed for processing that are of internationally accepted quality (preservatives, bread crumbs for breaded shrimps, bamboos for skewered shrimps, marinating material, herbs, etc.) could dramatically improve India's prospects in this area.

x. While some duty concession is available for prepared or preserved shrimp and prawns (Table A.1.6) (presently 2.9 per cent against MFN rate of 4.8 per cent), there is no concession available under CEPA for processed cuttle fish and squid for which the MFN rate is high at 10.5 per cent. Also, for Vietnam, Thailand and Malaysia the duties are 9.4 per cent. Further tariff concessions could be sought, should a review of tariffs be undertaken.

Chapter 29: Organic Chemicals

India's exports of organic chemicals to Japan increased steadily from US$ 163 million in 2010-11 to US$ 344 million in 2014-15. On

Table A.1. 6: Japan's Tariffs on Processed Shrimp and Cuttle Fish for Selected Countries

Item	HS Code	MFN	India	Vietnam	Thailand	Philippines	Malaysia	Australia
Processed/ preserved shrimps and prawns	1605.21.011	4.8	1.7	Free	Free	Free	Free	Free
	1605.21.019	4.8	1.7	Free	Free	Free	Free	Free
	1605.21.021	4.8		Free	Free	Free	Free	Free
	1605.21.029	4.8	2.9	Free	Free	Free	Free	Free
Cuttle Fish and Squid	1605.59.111	10.5	X	Free for LDC, ASEAN 9.4				
	1605.59.119	10.5						
	1605.59.191	10.5						
	1605.59.199	10.5						

Source: Compiled using statistics from Japan's customs website.

the other hand, Japan's global import of these products has declined from US$ 16.24 billion in 2010 to US$ 15.21 billion in 2014 after reaching a peak of US$ 18.33 billion in 2012. Though China and US remain the largest supplier of these products to the Japanese market, India's rank has improved from being the 14th largest import source in 2010 to the 5th largest supplier in 2014.

Basic drugs and certain pharmaceuticals are growing items of export from India to Japan (see Table A.1.7). These include heterocyclic compounds with nitrogen,

Table A.1. 7: India's Exports to Japan of Organic Chemicals

HS Code	Description	Exports to Japan (in US$ million)					
		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
2903	Halogenated derivatives of hydrocarbons	8.3	5.8	10.7	11.4	13.2	17.6
2904	Sulphonated, nitrated or nitrostated derivatives of hydrocarbons, whether or not halogenated	2.5	3.7	2.8	4.0	5.4	7.3
2906	Cyclic alcohols and their halogenated, sulphonated, nitrated or nitrostated derivatives	5.8	5.0	9.4	9.9	6.1	7.7
2907	Phenols; phenol-alcohols	8.3	5.7	7.3	7.3	6.0	7.4
2909	Ethers and their derivatives ketone peroxides (w/n chemically defined)and their halogenated sulphonated nitrated/nitrosated derivatives	1.1	2.0	0.7	1.8	5.1	4.9
2915	Saturated acyclic monocarboxylic acids and their anhydrites, halides, peroxides and peroxy acids; their halogenated sulphonated nitrtd/ nitrstated	10.9	19.5	25.7	22.0	16.5	11.7
2916	Unsaturated acyclic monocarboxylic acids, cyclic monocarboxylic acids, their anhydrides, halides, peroxides and p	4.0	4.8	7.2	8.5	7.9	6.5
2918	Carboxylic acids with additional oxygen function anhydrides halides peroxides and peroxy acids their halogenated sulphonated nitrated/nitrostated dr	0.4	0.8	1.0	1.9	1.7	18.8
2921	Amine- function compounds	19.3	20.1	25.7	30.2	34.3	36.6
2922	Oxygen-function amino-compounds	4.7	6.6	7.9	9.3	9.2	12.9
2924	Carboxyamide-function compounds amide-function compounds of carbonic acid	6.8	4.0	2.3	2.8	3.6	5.5
2932	Heterocyclic compounds with oxygen htr-atm(s) only	0.5	1.5	4.1	7.3	4.2	4.2
2933	Heterocyclic compounds with nitrogen	13.5	14.1	30.8	45.2	63.4	79.5
2934	Mucieic acids and their salts w/n chemically defined , other	0.4	1.1	3.2	10.9	20.2	19.1
2941	Antibiotics	3.5	3.7	19.4	29.8	29.3	22.3
2942	Other organic compounds	44.8	42.0	56.0	47.0	43.3	38.2
Total of Top Exports to Japan		134.7	140.3	214.4	249.2	269.3	300.0
Total Exports to Japan under the Chapter		163.3	182.8	264.4	291.1	311.7	344.0
Share of Top Exports to Total Exports		82.5	76.7	81.1	85.6	86.4	87.2

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

other organic compounds, amine-function compounds and antibiotics such as erythromycin and others. In fact India's exports of heterocyclic compounds with nitrogen hetero-atom(s) only (HS 2933) have increased from US$ 13.5 million in 2010-11 to US$ 79.5 million in 2014-15. This is even as Japan's imports of these products have declined from JPY 375 million in 2010 to JPY 322 million in 2014. While Ireland was the major supplier of these items to Japan in 2010, it has been gradually replaced by Spain in 2014 while India ranks 8th among sources.

India's exports of antibiotics such as erythromycin and its derivatives and salts thereof (HS 29415000) have also increased significantly from US$ 1.64 million in 2010-11 to US$ 13.74 million in 2014-15.

Considering the importance that pharmaceuticals can play in increasing India's exports to Japan, consultations were held with Pharmaceutical Export Promotion Council (Pharmexcil) and several leading Indian drug manufacturers. Following is a brief summary of points of relevance:

1) Roughly one third of items (in value) in HS Chapter 29 that India exports to Japan comprise Active Pharmaceutical Ingredients (API) or basic drugs. According to Pharmexcil, exports of these items have gone up in recent years although there was a decline from US$ 106.07 million in 2013-14 to US$ 96.05 million in 2014-15. Key among the items exported were 'other heterocyclic compounds' (HS 29349900), 'erythromycin and its derivatives' (HS 29415000) and 'other antibiotics' (HS 29419090). Of these, the first two, as well as certain other items in this Chapter attract an MFN duty of 3.1 per cent or more but all of these figure under tariff reduction category A with zero duty from August 2011. CEPA tariff reductions therefore have had some role in the rise in exports of these items.
2) It may be relevant to mention here also that India's export of drug formulations (HS Chapter 30 products), mainly generics and other medicinal supplies, to Japan also rose from US$ 13.78 million in 2010-11 to US$ 33.53 million in 2014-15. Indeed, the exports were even higher in 2013-14 at US$ 56.71 million. This significant rise in exports of generics was, however, not due to any CEPA tariff concession since the MFN duty rate on the main export items under this Chapter 'other medicine put up for retail sale' (HS 30049099) is itself zero. But the surge can perhaps be traced to a concerted move by India and Indian generic manufacturers to get a share of the expanding Japanese market for these items. It is also relevant here to mention that Article 54 of CEPA specifically deals with cooperation in generic medicines between the two countries and *inter alia* provides for national treatment in respect of registration and other approvals required to be completed within a reasonable period of time.
3) With a total market of US$ 15 billion for drugs and pharmaceuticals in Japan, India is well placed to acquire a larger share particularly for its APIs and generics. This is particularly so at a time when the Japanese government is making a targeted move towards a larger use of generic products in its public health care programmes. According to the Basic Policy on Economic and Fiscal Management and Reform 2015 [Japan Cabinet decision of 30th June 2015 (Extract given in Box 1)] the targeted volume share of

Box 1: Extract from Cabinet Decision of Japan

The targeted volume share of generics has been revised from 60 per cent or above by the end of FY 2017 to 70 per cent or above by mid-2017 as a step toward achieving 80 per cent or above, and it is planned to attain the target goal of 80 per cent or above at the earliest date possible between FY 2018 and 2020. A detailed time-table for attaining 80 per cent or above shall be finally set through evaluation of actual progress in volume share of generics by mid-2017.

Additional measures considered necessary to reach the new target will be taken in related fields such as stable supply, confidence in quality, information provision, and NHI-related matters.

From the viewpoint of decreasing the financial burden on people, the revision of pricing rules for generics will be examined and also the evaluation in the NHI scheme of off-patent originator medicines will be reviewed in consideration of the pricing of generics etc.

Source: Interim translation by JGA, Generics-related extract from Basic Policy on Economic and Fiscal Management and Reform 2015 (Cabinet Decision 30th June 2015) chapter 3-5 [1] Social Security, pages 33-34.

generics has been revised from 60 per cent or above by the end of FY 2017 to 70 per cent or above by mid-2017 as a step toward achieving 80 per cent or above at the earliest date possible between FY 2018 and 2020. Clearly, with such ambitious targets, India could be a good partner for Japan to reach the target.

4) There are, however, several peculiarities of the Japan generics and API market which Indian companies have been trying to grapple with:
   a) Medicines in Japan have different specifications from other markets. Standards in respect of allowance for residual impurities, or for raw material strengths are much more rigorous from that of US or EU requirements. Appearance, packaging, etc., are very critical for acceptance even if they have no relevance to safety or efficacy.
   b) Generics are still far from being widely accepted by people in Japan even as the government is seeking to move in that direction. They are also priced locally only at 20-30 per cent less than the corresponding innovation product. This makes it less price attractive. Even as the final price maybe high, in view of the prevailing distribution framework and practice, the price offered to the Indian exporters is, however, quite low, notwithstanding that 'innovator' quality is demanded.
   c) There is a significant gap of several months between expiry of product patent and launch of a generic in Japan partly because latter is allowed only twice a year. Secondly, data exclusivity now has been extended to an eight year period.
   d) Indian companies have been trying to cater to the Japanese market in a variety of ways including:
      i) Getting approval of PMDA of Japan for manufacturing facilities.
      ii) Contract manufacturing for Japanese companies.
      iii) Setting up wholly owned or joint ventures in Japan. Some of these investments in Japan have been successful but others have failed or not lived up to the mark.

iv) International generic companies like Mylan Labs which have manufacturing units in India are also catering to the Japanese API and generic market from their units in India.

e) Japanese companies have also tried to benefit from the various conducive elements prevalent in India for manufacturing pharmaceutical products. Daiichi's takeover of Ranbaxy could, however, not be sustained. On the other hand, there are also others such as Eisai setting up 100 per cent owned manufacturing unit in Vishakapatnam, Meiji Seika Pharma Co. Ltd. of Japan taking over Medreich Limited, or the Claris Otsuka joint venture in Vishakapatnam.

5) The Indian pharmaceuticals industry and the Ministry of Commerce are engaging with their Japanese counterparts with a view to bring about greater cooperation in this sector. There is also a draft MoU for cooperation under discussion between the Drug Controller General's (DCG's) office in India and the Pharmaceuticals and Medical Devices Agency (PMDA) of Japan with some news reports suggesting that PMDA may even open an office in India.[5] If these efforts bear fruit they will build on the CEPA framework and help to realise more fully the vast potential for cooperation in this sector. Apart from a dialogue between PMDA of Japan and DCG of India, if there can be some collaboration between the two countries on skill development in quality control, greater understanding on regulatory expectations and specific training programmes in meeting documentary requirements this would encourage more trade and investment and also help in building production sharing opportunities.

6) Indian companies will have to carefully watch the efforts that Japan government and regulatory agencies may take to reach the high target set for generics. The basic policy document earlier referred to (Box 1), itself hints that additional measures will be taken on aspects such as stable supply, confidence in quality, information provision and National Health Insurance (NHI) related matters. It also talks of revision of pricing rules for generics and review of the evaluation of the NHI scheme of off-patent originator medicines.

Chapter 71: Natural or cultured pearls, precious or semiprecious stones, precious metals, clad with precious metal and articles thereof; imitation jewellery; coin

Exports of precious stones and jewellery from India to Japan increased from US$ 279 million in 2010-11 to US$ 361 million in 2011-12 but declined to US$ 283 million in 2014-15. India's global exports of these products exhibited the same trend increasing to US$ 47.27 billion in 2011-12 but declining to US$ 41.5 billion in 2014-15.

India's major exports to Japan under this category are cut and polished diamonds

5 See *Economic Times* report "Japanese Drug Regulator set to open India office to encourage generic purchases", 15th October 2015, New Delhi.

Table A.1. 8: India's Exports to Japan of Gems and Jewellery							
		Exports to Japan (in US$ million)					
HS Code	Description	2010-11	2011-12	2012-13	2013-14	2014-15	Category
71023910	Diamond (other than industrial diamond) cut or otherwise worked but not mounted or set	230.85	313.09	298.15	302.07	254.05	A
71023990	Others	2.86	4.11	6.79	4.41	1.59	A
71039100	Otherwise worked rubies sapphires and emeralds	2.57	4.45	4.76	5.62	5.32	A
71039990	Other stone cut (topaz aquamarine etc)	16.13	18.3	10.66	8.61	5.1	A
71131120	Silver jewellery set with gems	1.68	1.94	1.43	8.34	0.94	B10
71131930	Jewellery of gold set with diamond	16.47	18.58	13.05	11.05	9.48	B10
71179090	Other imitation jewellery for personal adornment(other than artware)	0.97	1.41	2.0	2.07	1.8	A
Total of Top Exports to Japan		271.53	361.88	336.84	342.17	278.28	
Total Exports to Japan under the Chapter		279.89	372.25	346.98	348.55	283.53	
Share of Top Exports to Total Exports		97.01	97.21	97.08	98.17	98.15	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

(Table A.1.8). Exports of these items increased from US$ 230 million in 2010-11 to US$ 302 million in 2013-14 but declined to US$ 254 million in 2014-15. However, India remains the top most supplier of these items to Japan with a 46 per cent share in value (Belgium with 17.1 per cent, Israel with 10 per cent and Hong Kong with 7.5 per cent following next). It must be noted that Japan's applied MFN tariff rate on these items is also zero.

Discussions with Gem and Jewellery Export Promotion Council (GJEPC) and those active in jewellery trade in Japan have indicated the following:

i) There are over 150 Indian diamond traders who have established offices in Japan. They are involved in imports of cut and polished diamonds from India and also trade in loose diamonds locally. Further, they actively do business with other diamond traders in the region located in Bangkok, Hong Kong, etc. They are also engaged in recycling of loose diamonds from old jewellery. Indian traders have also set up auction and exchange houses in Japan to ply their trade.

ii) The Japanese market, because of a declining population and a hike in the consumption tax (from 5 to 8

Table A.1. 9 : Japan's Imports of Jewellery of other precious metal, whether or not plated or clad with precious metal (Other) (HS 711319.029) in 2014			
Country Name	Imports in 1000 JPY	Share	Tariff
France	32275584	33.78	5.4
Italy	19275794	20.18	5.4
United States of America	9668611	10.12	5.4
Thailand	6582589	6.89	0
Switzerland	6409933	6.71	5.4
Hong Kong	5915890	6.19	5.4
People's Republic of China	3874207	4.06	5.4
Viet Nam	2828331	2.96	0
India	1525633	1.60	1.2

Source: Compiled from statistics from Trade Data for Japan, Ministry of Finance.

per cent on 1st April 2014), is not an expanding market. Indian exports to Japan have also not diversified to enter the finished jewellery market in a big way. The branded jewellery segment is huge in which Indian companies have no presence even as some initial attempts by one or two companies are being made. Not only branded companies from developed countries but also jewellery from Thailand, Hong Kong, China and Vietnam have a larger presence in the set jewellery segment often using the diamond and gemstones provided by the Indian diamond trade. Thailand and Vietnam also enjoy zero duties for this item from their FTAs with Japan. In the case of India, it is presently pegged at 1.2 per cent (see Table A.1.9).

iii) Some among Indian gem traders in Japan feel that India can succeed more if it can offer tailor made products for the Japanese market. They conveyed that a few of the Indian well known brands are beginning to explore the market which is huge. India will also have to undertake more promotional efforts and needs to revert back to participating in local fairs which it has not done in recent years.

Chapter 72: Iron and Steel

India's exports of iron and steel to Japan fell considerably in the first year of CEPA implementation from US$ 373 million in 2010-11 to US$ 201 million in 2011-12. The volume of iron and steel exports to Japan declined by around 46 per cent in

Table A.1. 10: India's Exports of Iron and Steel: Quantity (in tonnes)				
Year	Exports to Japan	Growth Rate (%)	Exports to the World	Growth Rate (%)
2010-11	3,26,803.03	64.39	70,28,102.30	30.21
2011-12	1,74,542.33	-46.59	80,41,525.80	14.42
2012-13	2,20,066.85	26.08	86,79,632.99	7.94
2013-14	2,88,462.48	31.08	114,87,925.01	32.35
2014-15	2,51,600.46	-12.78	105,77,669.44	-7.92

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.1. 11: India's Exports to Japan of Iron and Steel							
HS Code	Description	Exports to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
72011000	Non-alloy pig iron containing <=0.5% phosphors	23.3			7.9		A
72021100	Ferro-manganese ,carbon containing>2% by weight	6.2	2.7	8.5	16.6	20.3	B10
72023000	Ferro-silicon-manganese	159.6	129.6	150.0	163.9	163.4	B10
72024100	Ferro-chromium carbon containing>4% by weight	168.3	60.8	71.7	75.3	50.7	A
72052910	Powder of iron	1.0	2.7	3.5	4.0	3.9	A
Total of Top Exports to Japan		358.3	195.8	233.7	267.6	238.2	
Total Exports to Japan under the Chapter		373.5	201.3	243.3	274.8	245.2	
Share of Top Exports to Total Exports		95.9	97.2	96.1	97.4	97.2	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

the same year, despite a growth in India's global exports of these items. There was some revival in the years thereafter with exports increasing to US$ 274 million in 2013-14. However, in 2014-15, exports of iron and steel to Japan fell slightly to US$ 245 million coinciding with a fall in India's global exports of iron and steel from US$ 9.2 billion in 2013-14 to US$ 8.6 billion in 2014-15. Meanwhile Japan's overall imports of iron and steel increased significantly from US$ 8.50 billion in 2010 to US$ 11.37 billion in 2011. Since then the imports have come down, increasing slightly to US$ 8.52 billion in 2014 (see Table A.1.10).

The major export items to Japan under this chapter are ferrous alloys of iron such as ferro-silico-manganese, ferro manganese containing carbon and ferro-chromium carbon (Table A.1.11). Export of ferro-manganese carbon increased between 2010-11 to 2014-15 from US$ 6.2 million to US$ 20.3 million, probably as a result of the CEPA concessions. The MFN tariff on the product is 6.3 per cent while the preferential tariff for India is 2.7 per cent. Given that the item is under the tariff category B10, it is expected that further reductions might lead to greater exports to Japan. But exports of ferro-silico-manganese which falls under the category B10, have risen only marginally from US$ 159 million in 2010-11 to US$ 163.4 million in 2014-15 despite a tariff advantage (MFN tariff rate if 2.5 per cent while the CEPA tariff rate is 1.1 per cent). It must also be mentioned that, Japan's preferential tariff for other EPA partner countries for both these products is zero.

Exports of ferro-chromium steel have declined sharply from US$ 168 million in 2010-11 to US$ 50.7 million in 2014-15 despite a preferential duty of zero per cent compared to an MFN duty of 5.3 per cent in 2015. India's global exports of ferro-chromium have also showed a similar pattern which can be attributed to the fall in domestic chromite production in India.[6] However, this item remains a large import item for Japan.

6 See, The Economic Times, "Ferro chrome makers plan facility expansion to handle rising demand." 10 November 2014. Available at http://articles.economictimes.indiatimes.com/2014-11-10/news/55955759_1_indian-metals-ferro-alloys-subhrakant-panda-ferrochrome

Table A.1. 12: Unit Value Comparison of Japan's Imports of Ferro-chromium Carbon Steel				
Country	Japan's Imports in 2010 (1000 JPY)	UV in 2010	Japan's Imports in 2014 (1000 JPY)	UV in 2014
Kazakhstan	41250323	0.155275	52396705	0.163549
South Africa	36799526	0.104369	38300080	0.108714
India	12960357	0.128753	6820830	0.131321
Finland		NA	2065684	0.116130

Source: Compiled from statistics from Trade Data for Japan, Ministry of Finance

Even though South Africa and Kazakhstan remain the top source of imports for this product in Japan, imports from Finland have made a beginning. Table A.1.12 gives a comparison of Unit values for Japanese imports of this item.

Chapter 84: Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof

Exports of machinery and mechanical appliances to Japan showed a steady increase in the period after the implementation of the CEPA from US$ 103 million in 2010-11 to US$ 228 million in 2014-15. All tariff lines under this Chapter were fully liberalised w.e.f August 2011 but the MFN applied tariff rates on these products is also zero. India's major exports to Japan under the chapter consist of air-craft engines, blow moulding machines and parts of machinery (Table A.1.13). It is interesting to note that the exports of aircraft engines to Japan increased from US$ 4.42 million in 2011-12 to US$ 91.1 million in 2013-14, and experienced a decline thereafter to US$ 62.95 million, though they still remain the top export item to Japan under this Chapter.

There is a considerable increase in the exports of spark-ignition or combustion piston engines and taps, cocks and valves. However, exports of certain other items such as parts of computers (HS 84733099), other machinery for printing repetitive word or design or colour (HS 84431949), other parts of filtering or purifying machinery (HS

Table A.1. 13: India's Exports to Japan of Nuclear Reactors, Boilers, Machinery and Mechanical Appliances							
Product Codes	Product Description	Export to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
8406	Steam turbines and other vapour turbines	2.5	0.09	3.14	4.54	5.28	A
8407	Spark-ignition reciprocating or rotary internal combustion piston engines	0.15	5.11	24.22	91.47	63.33	A
8408	Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)	0.61	0.61	0.5	1.66	13.68	A

Table A.1.13 continued...

Table A.1.13 continued...

Product Codes	Product Description	Export to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
8409	Parts suitable for use solely or principally with the engines of heading 8407 or 8408	10.52	12.14	10.18	10.46	11.75	A
8412	Other engines and motors	3.47	3.63	4.96	4.54	4.31	A
8413	Pumps for liquids, whether or not fitted with a	1.5	2.8	3.99	3.67	4.2	A
8414	Air/vacuum pumps, air/other gas compressors and fans; ventilating/ recycling hoods incorporating a fan, w/n fitted with filters	4.02	6.09	5.13	5.65	5.77	A
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases	6.19	7.77	7.93	5.05	3.52	A
8431	Parts suitable for use solely/principally with the machinery of hdgs.nos.8425 to 8430	8.94	16.61	21.32	18.84	15.53	A
8443	Printing machinery, incl ink-jet printing machines excl hdng. No 8471; machines for uses ancillary to printing.	5.98	7.14	5.7	4.88	9.29	A
8473	Parts and accessories(excl covers, carrying cases etc) used with machines of hdg no.8469 to 8472	4.86	1.73	1.54	1.95	2.59	A
8477	Machine for working rubber/plastics/ for the manufacture of products from these materials, n.e.s.	24.36	22.38	13.28	13.17	23.97	A
8480	Moulding boxes for metal foundry; mould bases; moulding patterns; moulds for metal (other than ingot moulds), metal ca	4.25	6.15	5.26	5.72	7.82	A
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing	2.51	6.28	13.02	14.56	22.93	A
8482	Ball or roller bearings	2.65	3.1	6.83	4.81	5.51	A
8483	Transmission shafts and cranks; gears; ball screws; bearing housing and other plain shaft bearings speed changers incl torque convertors fflywh	3.69	4.56	4.83	6.01	7.15	A
Total of Top Exports to Japan		86.2	106.19	131.83	196.98	206.63	
Total Exports to Japan under the Chapter		103.88	132.83	158.62	226.11	228.46	
Share of Top Exports to Total Exports		82.98	79.94	83.11	87.12	90.44	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

84219900) and gas turbines (HS 84118260) have declined in the period after CEPA implementation.

It must be mentioned that according to Japanese import figures maintained by Ministry of Finance of Japan, Japan's major imports from India consist mainly of parts of spark engines (HS 840991010 with imports in 2014 about JPY 1592 million) and blow moulding machines (HS 847730000 with imports in 2014 about JPY 1463 million) while imports of aircraft engines are almost negligible. Hence there appears to be a considerable mismatch between the product descriptions in the two sets of figures.

Chapter 26: Ores, Slag and Ash

Exports of ores, slag and ash increased sharply in the first year of implementation of CEPA from US$ 174 million in 2010-11 to US$ 316 million in 2011-12 while the volume of exports fell drastically in the same period registering a decline of about 59 per cent. Exports of ores to Japan declined to US$ 253 million in 2012-13 with the volume of exports also declining further by 29 per cent despite a surge in India's global exports of ores. There was a slight recovery in 2013-14 with exports increasing to US$ 306 million but these have come down to US$ 217 million in 2014-15. Japan's global imports of these products increased from JPY 2807 billion in 2010 to JPY 3185 billion in 2014.

Tariffs on all imports under this chapter were eliminated on August 2011. However since the applied MFN tariffs on these products were already zero, the surge cannot be attributed to tariff liberalisation. There have also been constraints on the supply side since the Supreme Court of India banned iron ore mining in Karnataka's Bellary, Tumkur and Chitradurga districts in 2011[7] which was lifted in 2013 (for Grade B mines only).[8] Later in 2012, the Supreme Court of India suspended iron ore transport in Goa, which was India's second-biggest iron ore producing state producing more than 50 million tonnes annually and also the top exporter.[9] Though this ban was lifted in April 2014, production resumed only in August 2015, after nearly three years. However, the Supreme Court has set an annual limit of 20 million tonnes for fiscal year 2015-16.[10] Export tax on these products which was brought down from 30 per cent (imposed in 2012)[11] to 10 per cent in April, 2015, is still regarded quite high.[12] Further, the global market for iron ores export is already experiencing an oversupply of iron ore from Australia and Brazil resulting in lower prices.[13] India's major exports to Japan under this Chapter consist of iron ores and concentrates (see Table A.1.14).

7 http://www.livemint.com/Politics/1jjJK6v849qOOGh06WqDQI/SC-extends-iron-ore-mining-ban-to-Tumkur-Chitradurga-distri.html
8 http://www.firstpost.com/business/scs-karnataka-mining-order-all-you-wanted-to-know-708916.html
9 http://in.reuters.com/article/india-ironore-mining-goa-supreme-court-idINDEE89405120121005
10 http://www.bloomberg.com/news/articles/2015-04-30/india-to-cut-export-duty-on-some-iron-ore-grades-jaitley-says
11 http://www.mining.com/india-picks-worst-time-to-resume-iron-ore-mining-analysts/
12 http://www.business-standard.com/article/companies/thirty-per-cent-iron-ore-export-duty-counter-productive-vedanta-ceostyle-color-rgb-34-34-34-font-size-13-333333969116211px-thirty-per-cent-iron-ore-export-duty-counter-productive-vedanta-ceo-114081200532_1.html
13 http://www.bloomberg.com/news/articles/2015-04-30/india-to-cut-export-duty-on-some-iron-ore-grades-jaitley-says

Table A.1. 14: India's Exports to Japan of Ores, Slag and Ash							
HS Code	Description	Exports to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
2601	Iron ores and concentrates, including roasted iron pyrites iron ores and concentrates, other than roasted iron	116.2	252.44	186.95	245.14	184.46	A
2603	Copper ores and concentrates				18.67		A
2610	Chromium ores and concentrates	8.36	1.68	1.79	6.56	8.15	A
2614	Titanium ores and concentrates	45.67	51.36	62.6	30.02	23.58	A
2619	Slag dross (other than granulated slag) scaling and other waste from the manufacture of iron/steel	3.23	7.9		4.52		A
Total of Top Exports to Japan		173.46	313.38	251.34	304.91	216.19	
Total Exports to Japan under the Chapter		174.38	316.25	253.4	306.37	217.52	
Share of Top Exports to Total Exports		99.47	99.09	99.19	99.52	99.39	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.1. 15: India's Exports of Ores, Slag and Ash: Quantity in tonnes				
Year	Exports to Japan	Growth Rate	Exports to the World	Growth Rate
2010-11	3,91,621.61	169.63	40,26,644.24	-17.71
2011-12	1,58,222.89	-59.60	42,85,127.37	6.42
2012-13	1,10,976.56	-29.86	76,69,901.76	78.99
2013-14	1,52,282.77	37.22	77,10,760.90	0.53
2014-15	1,22,226.95	-19.74	110,59,822.14	43.43

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Chapter 62: Articles of apparel and clothing accessories, not knitted or crocheted

Exports of woven apparel and clothing from India increased from US$ 131 million in 2010-11 to US$ 192 million in 2013-14 and experienced a decline in 2014-15 to US$ 169 million. In the same period, India's global exports of these products experienced a steady increase from US$ 6.67 billion in 2010-11 to US$ 9.19 billion in 2014-15. Japan's global imports of these products have also increased steadily during the period from JPY 1105 billion in 2010 to JPY 1564 billion in 2014.

Under CEPA, tariffs on all woven apparel items (all tariff lines under this Chapter) were eliminated on 1 August 2011. India's major exports to Japan are women's dresses of cotton, men's shirts of cotton and women's blouses or shirts of cotton (Table A.1.16). Exports of women's dresses, etc., of cotton (HS 620442) to Japan have been significant but have stayed stagnant at

Table A.1. 16: India's Exports to Japan of Articles of Apparel and Clothing Accessories						
HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
62033200	Jackets and blazers of cotton	1.24	0.6	1.13	1.68	2.62
62033990	Jackets and blazers of other fibres	0.08	0.51	0.41	0.16	1.12
62034200	Trousers bib and brace overalls breeches and shorts of cotton for men's and boys'	2.32	4.23	4.26	4.81	5.79
62043200	Jackets of cotton	0.72	1.53	1.55	1.54	1.66
62044220	Dresses of cotton	20.34	28.49	26.86	21.6	20.91
62044290	Other dresses of cotton	2.3	2.55	2.55	1.92	2.0
62044390	Other dresses of synthetic fibres	2.27	3.25	5.18	4.48	2.76
62044400	Dresses of artificial fibres	0.2	1.05	1.62	2.42	3.0
62045200	Skirts and divided skirts of cotton	6.44	8.93	9.11	8.26	7.66
62045300	Skirts and divided skirts of synthetic fibres	1.02	1.27	1.9	1.35	1.18
62046200	Trousers, bib and brace overalls, breeches and shorts of cotton	4.49	8.43	6.87	5.5	4.83
62052000	Men's or boys' shirts of cotton	4.04	7.55	9.46	13.27	12.32
62053000	Men's or boys' shirts of man-made fibres	0.12	0.09	0.13	0.88	1.25
62063000	Blouses, shirts and shirts-blouses of cotton	37.56	56.5	39.21	38.75	35.34
62064000	Blouses, shirts etc of man-made fibres	3.64	5.06	5.54	5.54	5.55
62069000	Blouses, shirts etc of other textile materials	1.83	2.09	2.03	2.38	1.86
62092000	Babies' garments and clothing accessories of cotton	1.82	3.12	2.11	2.88	3.27
62113200	Other garments of cotton for men's or boys'	0.7	1.57	1.74	1.69	1.39
62114290	Cotton garments other than kurta and salwar with without duppatta	1.75	9.67	11.53	11.6	9.65
62114300	Other garments of man-made fibres	0.34	1.49	2.59	2.85	2.12
62141090	Shawls, scarves, etc of silk, others	2.0	1.99	1.78	1.55	0.69
62142010	Shawls of wool	0.99	1.71	2.64	2.45	1.88
62142020	Scarves of wool	2.81	4.52	6.35	5.29	3.7
62142090	Other items of wool other than shawls, scarves and mufflers	1.79	2.52	2.84	3.42	2.67
62143000	Shawls, scarves, mufflers etc of synthetic fibres	0.43	1	1.48	1.69	1.01
62149040	Scarves cotton	1.87	3.13	3.25	3.6	4.14
62149050	Shawls, mufflers and the like of cotton	0.88	0.95	1.09	1.63	0.66
62149090	Shawls, scarves, etc of other textile fibres	6.89	9.37	11.98	12.16	8.9
Total of Top Exports to Japan		110.88	173.17	167.19	165.35	149.93
Total Exports to Japan under the Chapter		131.26	199.34	192.86	192.0	169.11
Share of Top Exports to Total Exports		84.47	86.87	86.69	86.12	88.66

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

around US$ 20 million in the entire period. Almost 67 per cent of Japan's global import of this product was sourced from China in 2014. India, with imports worth US$ 24 million, is the second largest supplier to Japan. It must be noted that Japan's applied tariff on this product is 9.1-10 per cent which is what is applicable for imports from China. India's other important export items to Japan are shirts of cotton for men and boys (HS 62052000) whose exports have increased steadily from US$ 4 million in 2010-11 to US$ 12 million in 2014-15. Even though China remains Japan's main source of imports of this item (HS 620520), its share is steadily declining, while imports from other sources such as Vietnam, Bangladesh, Indonesia and Myanmar have steadily increased over the years. The MFN tariff on this product is 7.4 per cent while the preferential tariff for Japan's other EPA partners, is zero per cent.[14]

Japan's major import items under the chapter are trousers, bib and brace overalls, breeches and shorts of cotton for women (HS 620462) with imports worth US$ 1.06 billion in 2014 and trousers bib and brace overalls breeches and shorts of cotton for men and boys (HS 620342) with imports worth US$ 962 million in 2014. While India has sizeable exports of these products to US and UK, exports to Japan have been limited despite the tariff elimination. Japan's MFN tariffs on these items ranged between 9.1-10 per cent.

There has also been some surge in the exports of knitted or crocheted apparels (HS 61) to Japan. Exports of this set of items increased from US$ 13.99 million in 2010-11 to US$ 33.41 million in 2014-15. Japan's applied MFN tariff on the products covered under this Chapter ranged between 5 to 10.4 per cent. However, tariffs for Indian exports were eliminated w.e.f August 2011 under the CEPA. Despite this, Indian exports have not been able to penetrate the Japanese market which is worth over US$ 14 billion in 2014. India's major export to Japan under the Chapter consists of t-shirts, singlets and other vests of cotton. China, Vietnam and Bangladesh are India's major competitors for these products in the Japanese market.

While the foregoing analysis was based on Indian DGCIS statistics, discussions with the Japan Textiles Importers Association

Table A.1. 17: Japan's Imports of Knitted and Woven Garments

Year	Japan's Imports of Knitted Garments from India (in million yen)	Japan's Imports of Woven Garments from India (in million yen)	Japan's Imports of Knitted and Woven Garments from India (in million yen)	Japan's Total Imports of Knitted and Woven Garments (in million yen)	India's Share of Japan's Total Imports of Knitted and Woven Garments (in %)
2010	2198	13015	15213	1989831	0.76
2011	2357	15689	18046	2223739	0.81
2012	2476	17191	19667	2290000	0.86
2013	3269	18462	21731	2761275	0.79
2014	4166	18357	22523	2752426	0.82

Source: Japan Textiles Importers Association.

14 Countries with EPA with Japan as per Customs Japan: Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines, Switzerland, Vietnam, India, Peru, Australia. Additionally countries like Bangladesh, Cambodia and Myanmar enjoy GSP concessions of zero duty.

(JTIA) brought forth several interesting details in terms of the evolving market shares of import sources. Table A.1.17, A.1.18 and A.1.19 separately present comparative market shares of woven and knitted apparel of various exporting countries to Japan.

It is clear from these tables that India has not been able to leverage its CEPA tariff advantage in any significant manner particularly at a time when China's predominant share in the Japanese market is seeing a downward trend. In respect of woven garments, while China's share has

Table A.1. 18: Japan's Imports of Woven Garments (Share in %)

Country/Region	2010	2011	2012	2013	2014
China	80.53	77.54	74.40	71.52	66.79
ASEAN	9.82	12.79	14.88	17.11	20.53
Vietnam	5.94	7.36	7.76	8.61	10.09
EU	4.07	3.92	4.09	4.20	5.68
Bangladesh	1.10	1.34	1.86	2.24	2.70
Myanmar	1.57	2.34	2.62	3.17	3.93
Indonesia	0.93	1.37	2.16	3.01	3.16
Italy	2.85	2.71	2.76	2.91	3.13
Cambodia	0.00	0.00	0.92	1.22	2.13
India	1.29	1.36	1.45	1.31	1.31
US	0.61	0.55	0.66	0.67	0.62
Thailand	0.46	0.45	0.50	0.52	0.60
Korea	0.37	0.33	0.30	0.00	0.00

Source: Japan Textiles Importers Association.

Table A.1. 19: Japan's Imports of Knitted Garments (Share in %)

Country/Region	2010	2011	2012	2013	2014
China	87.91	85.63	83.23	80.34	76.22
ASEAN	5.65	7.74	9.81	12.53	15.78
Vietnam	3.46	4.39	5.25	6.81	8.36
Indonesia	0.54	1.21	1.93	2.44	2.92
Bangladesh	0.62	1.15	1.50	1.73	2.19
EU	2.52	2.45	2.49	2.56	2.98
Thailand	1.25	1.45	1.64	1.70	1.98
Italy	1.73	1.68	1.69	1.74	1.79
Cambodia	0.00	0.00	0.35	0.78	1.38
US	0.47	0.40	0.41	0.39	0.44
India	0.22	0.22	0.23	0.24	0.31
Myanmar	0.00	0.05	0.12	0.14	0.33
Korea	1.10	0.94	0.83	0.00	0.00

Source: Japan Textiles Importers Association.

come down from 80.53 per cent in 2010 to 66.79 per cent in 2014, shares of several ASEAN countries (Vietnam, Indonesia, Myanmar and Cambodia) and Bangladesh have significantly risen to fill the void. India's share has remained at around 1.3 per cent. Similarly in respect of knitted garments, while China's share has seen a fall from 88 per cent in 2010 to 76 per cent in 2014, the shares of both ASEAN countries and Bangladesh have tripled. India's share which had been marginal in the knitted segment, has shown only a small rise.

Discussions with JTIA also brought out the following:

i) Imports from China have come down from 90 per cent market share to 70 per cent due to increase in cost of Chinese products. The expectation is that their share will go down further to 50 per cent, with sharper reductions in price competitive items like casual wear, inner wear, etc. However, on higher priced items China is expected to maintain its market share.

ii) Japanese apparel market is unique since different products are needed for the four seasons and in smaller lots and the delivery has to be fast and time bound. While imports from ASEAN countries are filling the gap left by China, production costs could rise soon in ASEAN countries as well and India may have a chance then particularly since India has a strong spinning and weaving industry.

iii) In terms of requirements of Rules of Origin, while countries like Vietnam and Indonesia (and India) will have to complete two operations (weaving and garment making) to be eligible for CEPA concessions. LDCs like Bangladesh and Cambodia are eligible for duty free concession under GSP even with only one operation (garment making – meaning they can use imported fabric).

iv) Japanese interest in investing overseas in garment making is declining ("they have lost the passion'') while import decisions are largely made by trading houses. It is possible that Chinese companies could be interested to invest in India and Japanese companies who have business ties with several Chinese companies could source from them.

v) The recent entry of UNIQLO, a giant apparel company in Japan, could lead to significant increase in imports by Japan from India.[15]

The Lead Investigator of this Report also had a chance to go around the Trend Fair organised by Apparel Export Promotion Council (AEPC) and Indian Trade Promotion Organisation (ITPO) that was taking place in Tokyo at the time of his visit. It was evident from the display at the fair that attracted fifty Indian exporting companies that they were focussing largely on casual and informal wear, particularly woven garments for women. When asked why Indian exporters were not able to benefit from the CEPA tariff advantage, the following factors were cited by exporters:

i) The recent currency depreciation (Yen vs. Rupee) had affected Indian competitiveness a great deal;

ii) The competition from Cambodia, Myanmar and Vietnam has intensified in recent years. Competitor countries were also able to meet strict delivery schedule (within 30 days as against

15 http://timesofindia.indiatimes.com/business/india-business/Uniglo-ready-to-set-up-1000-stores/articleshow/37208937.cms

normal Indian preparedness of 90 days) more easily. Productivity was much higher even in countries like Bangladesh.

iii) Internally, delays also occurred in India due to time lag in issuance of COO by EIC ('a certification office in Jaipur can help');

iv) Some exporters said that they had to use imported fabric specified by customer which meant that CEPA concession will not be applicable. Also, there were customs delays at the time of import of fabric. Customs clearance on 24x7 basis was essential.

v) The Japan specifications were different compared to other markets. Also, the tolerance in quality variance was practically zero. (The exporters agreed in this regard that an initiative like establishment of a private Japanese textile testing laboratory (Nissenken) in Jaipur in November 2014 was very helpful.)

vi) As for manufacturing trousers and other higher value items as also formal wear, the exporters indicated that inability to employ large number of labour was a constraint and cost competitiveness became a factor.

Conclusions

1) If India continued to rely only on the existing model for export to Japan with no improvement in the product range or competitiveness, India's share in the Japanese market will be limited, despite CEPA concession. The huge opening from China vacating certain segments will then be used only by other countries.

2) As for improvement in the present situation, more effective customs and trade facilitation measures (like opening more EIC offices and not closing them on holidays, 24x7 customs facilitation, etc.), flexibility in labour policy for a seasonal sector etc., can help to some extent with exporters being able to improve on their competitiveness and their ability to meet tight delivery schedules.

3) More significant, however, is the related issue of facilitating manufacture by bigger units that can bring economies of scale. Entry of the large sourcing giant 'UNIQLO' from Japan, if successful, could mark a good beginning. It would also be important to engage with Japanese trading houses and JTIA and see if some of the producers they are currently sourcing from could be also persuaded to invest in India. There is a huge market that is likely to open up not only in Japan but also in other world markets as a result of China's gathering exit from manufacturing relatively lower end items that India can benefit from. India will, however, need to make available an 'Ease of doing business' location that is also well connected to a major port.

Chapter 87: Vehicles other than railway or tramway rolling stock, and parts and accessories thereof

India's exports of vehicles and other automotive parts to Japan increased steadily from US$ 36 million in 2010-11 to US$ 147 million in 2014-15. All tariff lines under this chapter were liberalised on 1st August 2011. Japan's applied MFN tariff rates on all the products under the Chapter were also zero as on April 2015. India's global exports of these products too experienced a sharp increase in the period from US$ 9.3 billion in 2010-11 to US$ 14.47 billion in 2014-15. Japan's global imports of these products have also risen significantly from JPY 1273

billion in 2010 to JPY 2281 billion in 2014. Thus, even though India's exports of these goods to Japan have increased, there still exists a lot of potential.

India's major exports under this Chapter are parts and accessories of vehicles and motor cars (Table A.1.20). Exports of this set of products increased substantially from US$ 16.83 million in 2010-11 to US$ 81.23 million in 2014-15. Japan's import of these products (HS 870899) increased from JPY 66 billion in 2010 to JPY 92 billion in 2014 with the imports from China rising from a share of 31 per cent in 2010 to 39 per cent in 2014. Imports from other sources such as Korea and Thailand have gained significant market shares for these products. It is also to be noted that there is some buoyancy in the exports of motorcycles and their parts from India in recent years. Exports of built up motor cars have also seen a rise from US$ 1.34 million in 2010-11 to US$ 17.44 million in 2014-15. This is corroborated by imports

Table A.1. 20: India's Exports to Japan of Vehicles Other than Railway or Tramway

HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
87032291	Motor car with cylinder capacity>=1000cc but < 1500cc with spark-ignition	1.34	2.41	3.32	9.5	17.44
87081090	Bumpers etc for other vehicles	6.83	1.98	1.27	1.09	1.21
87082100	Safety seat belts	0.01	0.01	0.37	1.00	1.41
87082900	Other parts and accessories of bodies(incl cabs)	0.3	0.56	0.25	0.55	2.21
87083000	Mounted brake linings	1.27	2.35	2.31	2.24	3.83
87084000	Gear boxes	0.32	0.89	2.28	3.52	8.35
87087000	Road wheels and parts and accessories thereof	0.66	0.78	2.62	2.43	3.99
87088000	Suspension shock absorbers	0.31	0.58	0.46	0.64	1.41
87089100	Radiators	2.36	0.64	2.53	1.26	0.85
87089400	Steering wheels, steering columns and steering boxes	2.44	2.83	2.84	2.39	3.75
87089900	Other parts and accessories of vehicles of hdg 8701-8705	16.83	31.00	80.47	87.82	81.23
87112029	Motor cycle with cylinder capacity >75 but<=250 cc	0.31	0.76	2.02	2.04	1.92
87113020	Motor cycles with cylinder capacity >250 but<=500cc	0.07	0.27	1.16	2.51	2.84
87114010	Motor cycles >500 but <=800 cc	0.03	0.01	0.05	0.35	3.21
87141090	Parts and accessories of motorcycle excl. Saddle				4.89	4.01
87141900	*Other parts & accessories of motor cycles (incl moped	0.36	7.31	5.44		
87149100	Frames, forks and parts thereof		0.33	4.21	3.98	2.71
87149990	Others	0.02	2.39	3.08	2.25	1.14
Total of Top Exports to Japan		33.46	55.1	114.68	128.46	141.51
Total Exports to Japan under the Chapter		36.16	61.16	118.99	133.29	147.88
Share of Top Exports to Total Exports		92.53	90.09	96.38	96.38	95.69

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

figures from Japan which show that Japan's imports from India of motor cars (HS 870322000) increased from JPY 331 million in 2010 (US$ 3 million approximately) to JPY 2269 million in 2014 (about US$ 21 million). Interestingly, Maruti Suzuki India, in which Japanese automobile giant Suzuki Motor holds over 56 per cent share, has recently announced its plans to export its Baleno cars to Japan. The company plans to export around 50,000 units of Baleno in the first year to over 100 countries, including up to 6,000 units to Japan.[16] Earlier in January 2015, about 70 limited edition Ford Ecosports, manufactured in Ford's Chennai plant, were launched in Japan.[17]

Discussions held with Automotive Components Manufacturers Association of India (ACMA) revealed that exports of automotive component parts to Japan have increased significantly in recent years. In fact, exports of the top 50 auto component parts from India to Japan increased from US$ 87.84 million in 2010-11 to US$ 234.32 million in 2014-15.[18] Discussions held with ACMA and Society for Indian Automobile Manufacturers (SIAM) brought out that Japanese automotive companies have contributed substantially to the setting up of the automotive industry in India and they also have come to hold a large share in the market. As for Indian exports not having done so well so far in the Japanese and Korean markets, it was the perception of ACMA that this was more due to cultural differences and not due to lack of competitiveness. The auto component industry in India had adopted almost all of Japanese production and quality management practices and several Indian companies had also won the prestigious Deming Prize. Japan was also not importing auto parts in a major way from other countries, except from Thailand where it had invested heavily. There have also been limited technology inflows into India from Japanese companies who normally depended on their own OEM suppliers. Greater technology collaboration and broadening sourcing could bring benefits.

It was conveyed by Society of Indian Automobile Manufacturers (SIAM) that Japan can assist in building an infrastructure for electric vehicles. There could also be greater collaboration in electric and hybrid technology and reducing carbon emission through 'Centres of Excellence' such as the National Automotive Testing and Research Infrastructure Project (NATRIP) under Ministry of Heavy Industry (MHI).

According to ACMA, cooperation can occur between the two countries through collaboration in R&D Centres, new product development and also electronics. India's strength in embedded services in engineering could be combined with Japan's technology to find innovative solutions.

16 http://www.thehindu.com/business/made-in-india-baleno-to-be-exported-to-japan-in-2016/article7806648.ece

17 http://www.indiancarsbikes.in/cars/ford-ecosport-limited-edition-indiamade-launched-japan-110872/

18 As defined by ACMA auto components include parts from various HS chapters and not only HS 87

Table A.1. 21: India's Exports to Japan of Electrical Machinery and Equipment						
HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
8501	Electric motors and generators(excl generating sets)	2.56	2.96	2.67	1.81	1.9
8502	Electric generating sets and rotary converters		0.47	0.5	0.31	1.22
8504	Electrical transformers, static converters (for example, rectifiers) and inductors	6.7	6.04	4.86	2.81	5.99
8511	Electrical ignition/starting equipment for spark-ignition etc generators etc and cut outs of a kind used in conjunction with such engines	0.78	2.19	4.87	3.35	4.4
8512	Electrical lighting/signalling equipment (excl articles of hd no.8539)wind screen etc used for cycles/motor vehicles	2.35	2.72	4.39	4.77	3.76
8517	Electrical apparatus for line telephonic/ telegraphic, incl telephone sets with cordless handset carrier-current line system; videophone	1.53	1.15	2.77	2.83	5.26
8523	Prepared unrecorded media for sound recording/ similar recording of other phenomena, other than products of ch.37	13.68	20.4	19.77	8.41	8.23
8536	Electrical apparatus for switching/protecting electrical circuits etc.(e.g. switches relays etc.) For a voltage not exceeding 1000 volts	2.21	3.52	4.63	5.06	5.33
8537	Boards panels etc equipped with two or more apparatus of hdg 8535/8536,incl those incorporating instruments/apparatus of ch 90	0.36	0.49	10.32	29.46	37.11
8538	Parts suitable for use solely/principally with the apparatus of hdg no.8535,8536/8537	4.71	3.77	4.3	3.88	2.02
8541	Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including pho	4.84	1.03	14.75	17.49	12.39
8542	Electronic integrated circuits and micro-assemblies	2.21	1.63	1.75	0.97	0.79
8543	Electrical machines and apparatus, having individual functions n.e.s.in this chapter	0.45	0.84	0.29	0.98	0.82
8544	Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric	18.08	29.96	51.25	39.19	31.08
8545	Carbon electrodes, carbon brushes, lamp carbons etc. Other articles of graphite/other carbon, with/ without metal of a kind used for electrical	1.58	4.44	2.34	0.59	0.74
Total of Top Exports to Japan		62.04	81.61	129.46	121.91	121.04
Total Exports to Japan under the Chapter		66.89	86.74	136.41	129.17	125.55
Share of Top Exports to Total Exports		92.75	94.09	94.91	94.38	96.41

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Chapter 85: Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts

India's exports of electrical machinery and equipment to Japan almost doubled from US$ 66.89 million in 2010-11 to US$ 125 million in 2014-15. Tariffs on these goods were eliminated with effect from the date that CEPA was implemented. Despite an increase in the exports of these goods to Japan, India has not been able to gain a sizeable market share given that it supplies these goods to other developed markets such as US as well. In fact, India's global exports of these goods increased considerably from US$ 9.3 billion to US$ 14.47 billion in 2014-15.

While exports of certain products such as rectifiers, DVDs and other unrecorded optical media have declined considerably in the period after CEPA implementation, exports of products such as electric boards, ignition wiring sets and Solar cells/ photovoltaic cells have done fairly well (Table A.1.21). India's exports of electric boards increased from US$ 0.32 million in 2010-11 to US$ 37 million in 2014-15. Japan's applied tariff rate on this product is, however, zero and the rise in India's export cannot be ascribed to CEPA tariff concessions. Further, Japan's global import of this product has increased from US$ 540 million in 2010 to US$ 850 million in 2014. The major sources of import are China, US, Germany and Korea.

Chapter 99: Miscellaneous goods

India's exports of goods classified as miscellaneous goods increased substantially in recent years thereby securing a place in India's top twenty export items to Japan in 2014-15. Returned goods, however, are the major items of export under this Chapter contributing to more than 95 per cent of exports from this Chapter (see Table A.1.22).

Chapter 38: Miscellaneous chemical products

India's exports of miscellaneous chemical products to Japan increased from US$ 59 million in 2010-11 to US$ 112 million in 2013-14. There has been a slight decline in exports of these products in 2014-15 to US$ 85 million despite a steady growth in India's global exports throughout the period. Japan's global imports of these products have also been increasing in the period and stood at about JPY 575 billion in 2014.

India's major exports to Japan under the Chapter are 'other insecticides', herbicides and industrial monocarboxylic fatty acid (Table A.1.23). Exports of 'other herbicides' showed a significant increase after the tariff liberalisation, (the MFN tariff on this products is 3.9 per cent), increasing from US$ 2.34 million in 2010-11 to US$ 37.04 million in 2013-14. Though there is a decline in exports in 2014-15, exports of these products seem to have gained due to the tariff advantage. India's major competitors for these products in the Japanese market are Belgium, China and France. Also, according to Japanese import statistics, Japan's import of these products from India have increased consistently from JPY 199 million in 2010 to JPY 457 million in 2014. Hence there appears to be a mismatch between the two figures.

Another set of products for which there appears to be a mismatch between trade statistics of both countries is 'Other industrial mono-carboxylic fatty acid' (HS 38231900). The MFN tariff on these products is 2.5 per cent against the CEPA reduced

Table A.1. 22: India's Exports to Japan of HS Chapter 99						
HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
99930010	Samples	0.49	0.97	1.1	0.94	0.1
99930020	Returned goods	23.0	15.72	24.51	108.74	94.06
99930090	Special transactions n.e.s.	0.51	0.24	0.21	0.02	0.49
99999998	Unspecified items		0.26	0.03		
Total Exports to Japan under the Chapter		24.0	17.19	25.85	109.7	94.65

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.1. 23: India's Exports to Japan of Miscellaneous Chemical Products							
HS Code	Description	Exports to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
38021000	Activated carbon	2.34	4.29	3.00	3.26	2.88	A
38089199	Other insecticide n.e.s	18.07	20.63	21.59	18.34	21.72	A
38089290	Others fungicide n.e.s	1.34	0.51	11.12	19.01	4.89	A
38089390	Other herbicides-anti-sprouting products	2.34	3.55	6.98	37.04	14.93	A
38089910	Pesticides, not elsewhere specified or inc	6.74	2.13	5.67	6.77	7.70	A
38089990	Other similar products n.e.s.	8.18	2.51	0.81	4.07	4.18	A
38123010	Anti-oxidants (rubber)	5.41	5.47	4.04	5.31	5.01	A
38159000	Other reaction initiators etc	1.10	2.77	2.76	2.44	2.45	A
38220090	Others	0.27	0.16	0.21	0.70	1.69	A
38231900	Other industrial mono-carboxylic fatty acid	2.65	4.73	2.69	4.51	11.42	A
38237090	Other industrial fatty alcohol	2.91	3.91	3.63	3.66	2.15	A
Total of Top Exports to Japan		51.35	50.66	62.50	105.11	79.02	
Total Exports to Japan under the Chapter		59.64	61.84	70.22	112.00	84.65	
Share of Top Exports to Total Exports		86.10	81.92	89.01	93.85	93.35	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

tariff of nil duty. Their exports from India increased from US$ 2.65 million in 2010-11 to US$ 11.42 million in 2014-15. According to Japanese statistics, these products ranked amongst the top ten import items from India in 2014 which benefitted from CEPA tariff concessions with imports worth JPY 1935 million.

Chapter 52: Cotton

Exports of cotton to Japan declined considerably in the period after CEPA implementation. While the preferential tariff for Japan's EPA partner countries including India is zero, the applied MFN tariff rate on some of the products listed under this

Table A.1. 24: India's Exports to Japan of Cotton						
		Exports to Japan (in US$ million)				
HS Code	Description	2010-11	2011-12	2012-13	2013-14	2014-15
5201	Cotton	4.19	5.66	5.48	4.18	4.21
5205	Cotton Yarn	67.94	64.42	43.63	57.24	51.40
5208	Cotton Fabrics	3.17	3.66	4.48	4.22	4.55
Total of Top Exports to Japan		75.30	73.74	53.59	65.64	60.16
Total Exports to Japan under the Chapter		80.10	80.57	57.68	70.02	65.11
Share of Top Exports to Total Exports		94.01	91.52	92.91	93.74	92.40

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Chapter ranges between 1.9 per cent to 5.6 cent. India's exports of cotton items to Japan decreased steadily from US$ 80 million in 2010-11 to US$ 65 million in 2014-15. India's global exports of these products on the other hand, increased steadily from US$ 6.9 billion in 2010-11 to US$ 9.9 billion in 2013-14 and declined to US$ 7.7 billion in 2014-15. This is against a backdrop when Japan's imports of these products from all sources increased from JPY 59.65 billion in 2010 to JPY 81.48 billion in 2014.

India's major export items under this Chapter are grey cotton yarn of different varieties but, exports of many of these products have been declining in recent years (Table A.1.24). It is to be noted that even though Japan produces cotton yarn and fabrics, the growth of the production of these items is declining. This is partly driven by increased imports from countries. While India continues to be the second largest supplier of cotton yarn to Japan, next only to Indonesia, India has lost some of its market share to countries like Thailand, Vietnam, Taiwan, Peru and Malaysia, most of which have FTAs with Japan.

As for import of cotton fabrics, bulk of Japan's fabric imports (close to 50 per cent) are sourced from China even as it does not enjoy any tariff concession. India's share is quite small even as it has grown from 1.78 per cent in 2010 to 2.65 per cent in 2014.

Chapter 32: Tanning or dyeing extracts; tannins and their derivatives, Dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks

India's exports of tanning and dyeing products, tariffs on which were eliminated immediately, increased steadily in the period after CEPA implementation from US$ 41 million in 2010-11 to US$ 63 million in 2014-15 corresponding to the growth in India's global exports of these products. Interestingly, Japan's imports of these products increased from approximately US$ 1.44 billion (JPY 134 billion) in 2010 to approximately US$ 1.51 billion (JPY 158 billion) in 2014. Even though China and US remain the biggest import source for Japan for these products, India's rank has significantly improved after the CEPA implementation.

India's major exports under this Chapter are blue pigments synthetic organic

Table A.1. 25: India's Exports to Japan of Tanning or Dyeing Extracts						
HS Code	Description	Exports to Japan in US$ million				
		2010-11	2011-12	2012-13	2013-14	2014-15
320300	Colouring matter of e/anml origin (incl dyeing extract excl animal black) w/n chemically defined	0.37	0.81	0.32	1.19	1.54
320411	Disperse dyes and preparations based thereon	0.82	1.49	1.61	2.22	2.81
320412	Acid dyes w/n pre metalised and preparations based thereon mordnt dyes and preparations based thereon	2.38	3.22	2.86	4.37	4.38
320413	Basic dyes and preparations based thereon	0.55	1.01	1.11	1.5	1.58
320414	Direct dyes and preparations based thereon	1.44	1.97	2.97	4.22	3.65
320415	Vat dyes (incl those usable in that state as pigments and preparations based thereon	0.63	1.21	0.5	3.61	5.27
320416	Reactive dyes and preparations based thereon	1.33	1.37	1.7	2.56	3.22
320417	Pigments and preparations based thereon	27.09	33.84	32.41	37.42	33.88
320419	Other, including mixtures of colouring matter of two or more of the sub-headings 3204 11 to 3204 19 : azoic coupling	2.03	3.03	2.64	2.59	3
320420	Synthetic organic products of a kind used as fluorescent brightening agents	1.05	1.1	0.43	0.8	1.62
320490	Other synthetic organic colouring matter	1.72	1.27	0.76	0.29	0.47
Total of Top Exports to Japan		39.41	50.32	47.31	60.77	61.42
Total Exports to Japan under the Chapter		41.02	52.8	49.03	62.54	62.86
Share of Top Exports to Total Exports		96.08	95.30	96.49	97.17	97.71

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

colouring matter which have fared well after the CEPA implementation (Table A.1.25). The MFN duty on these products is about 4.4 per cent. On the other hand, as per import statistics from Japan, Japan's imports of Pigment dyestuffs (HS 320417010) from India have risen significantly and form the fourth largest import item from India that benefitted from tariff concession in 2014. Given that the MFN tariff on this product is 3.5 per cent while Indian exports are duty free, there is a significant tariff advantage for Indian exporters. According to the statistics of JETRO, out of Japan's total imports of

this product from India of JPY 3.90 billion, around JPY 3.68 billion was with the utilisation of CEPA concessions.

Chapter 8: Edible fruit and nuts; peel or citrus fruit or melons

Exports of edible fruits and nuts to Japan increased from US$ 41 million in 2010-11 to US$ 59.72 million in 2014-15 closely corresponding to the increase in India's global exports of these products. Japanese imports of these products also rose considerably from about JPY 238 billion in 2010 to JPY 316 billion in 2014. India's major exports to Japan under this chapter comprises whole cashew kernels whose exports have risen steadily from US$ 33 million in 2010-11 to US$ 56 million in 2014-15 (Table A.1.26). India remains the top most source of imports for this product in the Japanese market. However, the MFN tariff on this product is also zero. Hence the growth in export of this item cannot possibly be ascribed to CEPA.

On the other hand, exports of Mango pulp have declined from US$ 6.47 million in 2010-11 to US$ 1.46 million in 2014-15 despite zero tariffs for exports from India, as against a MFN tariff of 3 per cent. Japan's total imports of fresh mangoes have also declined in recent years from JPY 4030 million in 2010 to JPY 3697 million in 2014. India's major competitors for this product are Mexico, Thailand and Taiwan.

Japan had earlier imposed a ban on the import of Indian mangoes because of suspected pest infestation by fruits flies. After two decades of the ban, Japan allowed import of Indian mangoes on 23 June 2006.[18] However, India's fresh mango exports to Japan declined significantly in the last few years due to stringent quality norms set by the importing authorities. More recently, some steps have been taken by both sides. As per the understanding between the two countries, all mango shipments to Japan must undergo vapour heat treatment in India, with a minimum of 5 per cent of shipments being inspected by both Indian and Japanese officials. Agricultural and Processed Food Products Export Development Authority (APEDA) has recently decided to bear 90 per cent of the expenses incurred for stationing of quarantine inspectors from Japan for three years (2015-17) in India on the condition that

Table A.1. 26: India's Exports to Japan of Edible Fruits and Nuts

HS Code	Description	Exports to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
08013210	Cashew kernel, broken	0.91	0.94	0.70	1.14	1.21	A
08013220	Cashew kernel, whole	33.94	48.43	49.56	50.67	56.41	A
08045040	Mango pulp	6.47	6.01	3.06	1.73	1.46	A
Total of Top Exports to Japan		41.32	55.38	53.32	53.54	59.08	
Total Exports to Japan under the Chapter		41.94	56.00	54.05	54.17	59.72	
Share of Top Exports to Total Exports		98.52	98.89	98.65	98.84	98.93	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India

18 http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=126

exporters submit a written consent to export a minimum amount of mangoes of 50-70 metric tonnes in 2015, 100 metric tonnes in 2016 and 150 metric tonnes in 2017.[20] It does not appear however there has been any break through on this front yet and Indian mangoes remain virtually barred from the Japanese market.

Table A.1. 27: India's Exports to Japan of Other made up Textile Articles

HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
63026090	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics, of cotton, other than handloom	1.36	6.82	3.42	10.1	14.51
63079020	Made up articles of cotton	4.22	5.22	4.57	5.73	5.84
63039100	Other curtain etc of cotton	2.4	3.7	3.91	3.42	3.96
63041910	Bedsheets and bed covers of cotton	3	4.09	4.18	3.01	3.17
63049289	Other cushion covers	1.47	1.96	3.07	3.34	3.11
63049281	Cushion covers of handloom	1.55	1.74	2.01	2.36	2.73
63049250	Terry towel of cotton, not knitted/crocheted	1.3	3.64	4.8	2.03	2.39
63079090	Other made up articles other than cotton	1.64	2.8	2.78	2.8	2.09
63052000	Sacks and bags of cotton	0.54	0.99	1.16	1.48	1.97
63049299	Other furnishing articles	1.33	1.55	1.82	1.87	1.44
63029190	Other bed linen, tablei, toilet linen, kitchen linen: of cotton, other than handloom	0.06	0.03	0.48	0.49	1.37
63021090	All other bed linens knitted or crocheted	0.03	0.01	0.75	2.44	1.33
63041940	Bed sheets and bed covers of cotton, handloom	0.12	0.28	0.62	1.08	0.86
63049249	Other table cloth and table covers	0.43	0.95	0.58	0.96	0.77
63029110	Other bed linen, table linen, toilet linen, kitchen linen: of cotton, handloom	0.06	0.32	0.71	0.95	0.72
63049291	Other furnishing articles of handloom	0.83	1.43	0.64	1.35	0.67
63049190	Others	0.26	0.2	0.16	1.26	0.66
63039990	Other curtains etc other than handloom of other textiles materials	0.96	0.99	0.82	0.61	0.6
63025190	Other table linen: of cotton, other than handloom	0.05	0.2	0.32	0.37	0.59
63019090	Other blankets and travelling rugs,	0.12	0.17	0.45	0.36	0.57
63029900	Other linen of flax	0.1	0.15	0.21	0.28	0.55
63051040	Jute sacking bags	0.21	0.09	0.29	0.26	0.52
63071010	Fl00r-cl0th, piece cl0ths, dusters and similar cleaning cl0ths 0f c0tt0n	1.5	1.83	1.49	0.89	0.37
63079011	Dress materials of cotton hand printed	1.7	1.73	0.68	0.15	0.15
Total of Top Exports to Japan		25.24	40.89	39.92	47.59	50.94
Total Exports to Japan under the Chapter		32.57	53.45	55.28	57.25	56.75
Share of Top Exports to Total Exports		77.49	76.50	72.21	83.13	89.76

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

20 http://www.freshplaza.com/article/135441/India-Apeda-foots-bill-for-Japanese-mango-export

Chapter 63: Other made up textile articles; sets; worn clothing and worn textile articles; rags

India's exports of made up textile articles to Japan increased from US$ 32 million in 2010-11 to US$ 56.75 million in 2014-15. Tariffs on all the products under this Chapter were liberalised on the date of entry into force of CEPA while the MFN tariff ranges between 4.3 to 10.9 per cent. Japan's global import of these products has risen steadily with imports worth US$ 3.74 billion in 2014, sourced mainly from China and Vietnam. Compared to the actual market size, India's exports have been insignificant despite the CEPA concessions.

India's major exports to Japan under this Chapter consist of home textile items such as toilet linen and kitchen linen and made up articles of cotton (Table A.1.27). There has been a steady rise in exports of these products to Japan which imports about 73 per cent of its total home textile products (cotton).

Interaction with The Cotton Textiles Promotion Council (TEXPROCIL) brought a response that the tariff advantage derived out of India-Japan CEPA may not be sufficient to increase market share. Other factors are also seen as having a role and these include:

- Adoption by Japanese buyers of stringent quality standards;
- Availability of comparative advantage in other conversion centres such as China, Vietnam, Indonesia, Myanmar, etc.;
- Many of these countries also had better geographical access to Japan thereby reducing lead time;
- Investment/Joint Venture by Japanese importers in other Asian countries;
- Business culture, logistics/connectivity for production follow-up, etc.; and
- Due to issues like quality, need for visit of Japanese buyers to Indian factories to check overall manufacturing capabilities, etc., there is a long lead time before orders are placed.

Chapter 73: Articles of iron or steel

India's exports of iron and steel articles to Japan increased steadily from US$ 31 million in 2010-11 to US$ 67.93 million in 2013-14 and declined to US$ 48 million in 2014-15. India's global exports of these products however increased throughout the period. On the other hand, Japan's global imports of iron and steel articles have also increased throughout the period 2010 to 2014 except for a slight decline in 2012. China, South Korea and US are the top sources for Japanese imports.

Though India's exports of iron and steel articles to US (which is the largest export destination for Indian exports of these items) are increasing and amounted to US$ 1.71 billion in 2014-15, India has not been able to penetrate the Japanese market despite the liberalisation of tariffs. India's major exports to Japan under this Chapter are 'Other articles of iron and steel' (HS 73269099) and forged or stamped for automobiles and earth moving equipment (HS 73261910), whose exports have grown after the CEPA came into force (Table A.1.28). However, it must be noted that the MFN applied tariff on these products is also zero.

Chapter 12: Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder

Exports of oil seeds to Japan have shown a significant increase in the period after the implementation of the CEPA from US$ 5 million to US$ 45 million in 2014-15.

Table A.1. 28: India's Exports to Japan of Articles of Iron and Steel						
HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
73044100	Other tubes, pipe and holo profile of circular cross-section of stainless steel, cold drawn or cold rolled		0.01		10.19	0.36
73089090	Other structure and parts of structures of iron and steel(excl floating structures)	3.19	4.30	3.58	2.99	3.97
73102990	Others	1.31	1.93	2.53	1.68	1.83
73209090	Others of other springs of iron/ steel	0.64	2.77	2.64	2.53	1.91
73239390	Other household article of stainless steel n.e.s	1.82	2.23	2.75	3.80	1.64
73239420	Utensils	1.03	0.58	1.65	1.65	1.08
73259920	Other cast articles of alloy steel malleable	2.94	3.27	2.13	3.32	1.06
73259930	Other cast articles stainless steel malleable	1.35	1.51	2.26	2.55	1.28
73259999	Other cast articles of iron or steel n.e.s	1.76	1.10	1.15	0.80	0.54
73261910	Other articles forged or stamped for automobiles and earth moving equipments	0.03	0.93	4.24	5.57	5.58
73269099	All other articles of iron/steel n.e.s other steering or rudder equipment for ships and boats, n.e.s.	10.55	22.13	20.79	22.89	21.18
Total of Top Exports to Japan		24.62	40.76	43.72	57.97	40.43
Total Exports to Japan under the Chapter		31.24	50.16	56.12	67.93	48.01
Share of Top Exports to Total Exports		78.81	81.26	77.90	85.34	84.21

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Japan's global imports of these products too witnessed a considerable increase from JPY 420 billion in 2010 to JPY 560 billion in 2014. Given the size of the Japanese market, it seems that Indian exports have not been able to penetrate the market. On the other hand, India exports these products to countries such as Vietnam, US and Indonesia in substantial volumes. In particular, India's exports of sesame seeds have not done well in the Japanese market despite zero tariff duty. While Japan's imports of sesame seeds from other countries such as Nigeria, Burkina Faso and Tanzania have been huge as well as increasing (Table A.1.29), Indian exporters have not been able to sell in the Japanese market despite India's exports of this item doing well in Korea. Although it has been the largest importer of sesame seeds, Japan has been reluctant to import sesame seeds produced in India claiming that they have too much pesticide residues.[21]

21 http://www.livemint.com/Politics/Nv3BR8VYZ9zLJwwGeFAlWJ/EU-team-to-inspect-sesame-seedprocessing-units.html

Table A.1. 29: Japan's Imports of Sesame Seeds in 2014		
Country	Japan's Imports (in 1000JPY)	Share to Japan's total imports of sesame seeds (in %)
Nigeria	11415263	28.21
Tanzania	7823548	19.34
Paraguay	4921209	12.16
Burkina Faso	4146157	10.25
Guatemala	2552680	6.31
Myanmar	2396873	5.92
Ethiopia	1297679	3.21
Total Imports by Japan	40458611	

Source: Compiled from statistics from Trade Data for Japan, Ministry of Finance.

Table A.1. 30: India's Exports to Japan of Oil Seeds							
HS Code	Description	Exports to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
12081000	Flours and meals of soya beans			9.89	30.4	34.73	A
12099190	Vegetable seeds for planting n.e.s.	0.32	0.65	0.70	0.95	1.01	A
12099990	Other seeds etc for planting n.e.s	1.19	1.83	1.97	2.21	2.18	A
12119022	Senna leaves and pads	0.57	1.31	2.26	1.71	1.91	A
12119032	Psyllium husk (isobgul husk)	1.19	2.07	1.62	2.57	2.90	A
Total of Top Exports to Japan		3.27	5.86	16.44	37.8	42.73	
Total Exports to Japan under the Chapter		5.46	9.21	19.51	40.9	45.55	
Share of Top Exports to Total Exports		59.9	63.6	84.26	92.4	93.81	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

India's major export under this Chapter is flours and meals of soyabean whose exports have risen sharply from US$ 9.89 million in 2012-13 to US$ 34.73 million in 2014-15 (Table A.1.30). Japan is the top most export destination for India's export of this product globally. Japan's applied tariff rate on this product as on 1 April 2015 was 4.2 per cent, thereby granting Indian exporters significant tariff advantage. However, according to Japanese trade figures, Japan's import of this product has been nil. It may be that imports of this product are reported as imports of soyabean oilcakes (HS 230400000). It is therefore necessary for the customs authorities of both sides to discuss the concordance issue during the meeting of the Sub-Committee on Customs Procedure.

Chapter 13: Lac; gums, resins and other vegetable saps and extracts

Exports of lac, gums and resins from India increased from US$ 20 million in 2010-11 to US$ 56.70 million in 2012-13 and declined thereafter to US$ 45.09 million in 2014-15. Japan's global imports of these products increased from JPY 23.7 billion in 2010 to JPY 37.8 billion in 2014.

Table A.1. 31: India's Exports to Japan of Lac; Gums, Resins and Other Vegetable Extracts							
HS Code	Description	Exports to Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
13021100	Saps and extracts of opium	4.90	4.45	8.15	6.71	6.25	A
13021917	Gymnema extract,	0.61	0.78	0.75	0.92	1.15	
13021918	Cambodge extract	0.50	1.06	0.89	0.59	1.28	
13021919	Other extracts	6.52	14.62	29.59	29.99	25.0	A
13023230	Guargum treated and pulverised	4.88	10.94	10.21	9.10	7.64	A
Total of Top Exports to Japan		17.41	31.85	49.59	47.31	41.32	
Total Exports to Japan under the Chapter		20.41	38.29	56.70	52.41	45.09	
Share of Top Exports to Total Exports		85.30	83.18	87.46	90.27	91.64	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India

India's major exports to Japan under this Chapter are other vegetable extracts and saps whose exports have risen from US$ 6.52 million in 2010-11 to US$ 25 million in 2014-15 (Table A.1.31). Exports of Saps and extracts of opium and guargum have also done well in recent years. However, Japan's applied tariff on all of these products is already zero and hence tariff concessions have not had a role in the export performance of these products.

Chapter 28: Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, or radioactive elements of isotopes

India's exports of inorganic chemicals to Japan increased substantially from US$ 43.76 million in 2010-11 to US$ 95.62 million in 2012-13 and declined thereafter to US$ 44 million. India's major imports to Japan under this Chapter are carbon blacks and titanium oxide (Table A.1.32). India's exports of carbon black to Japan showed an increase in the period after CEPA implementation increasing to US$ 28 million in 2011-12 but declined thereafter to US$ 14.19 in 2014-15, despite zero tariff compared to the MFN tariff of 3.9 per cent in 2015.[22] Many of our exporters are availing the CEPA tariff concessions as evident from the fact that out of total imports of JPY 1.71 billion in 2014, imports of JPY 1.59 billion used CEPA preferential tariff.[23] Hence, despite the CEPA concessions, Indian exporters are not able to fully penetrate the Japanese market. A possible reason for this could be Japan's increasing imports of carbon black from China and Korea. Japan's imports of this product from China increased from JPY 1447 million in 2010 to JPY 10871 million in 2014.

Similarly, India's export of other titanium oxides (HS 28230090) increased substantially from US$ 10.42 in 2010-11 to US$ 57.33 million in 2012-13 but

22 The same trend is noticed in Japan's imports of this product from India which increased to JPY 2399 million in 2011 but declined thereafter to JPY 1712 million in 2014.

23 According to data received from JETRO.

Table A.1. 32: India's Exports to Japan of Inorganic Chemicals						
HS Code	Description	Exports to Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
28030010	Carbon blacks	20.29	28.93	23.49	15.09	14.19
28170010	Zinc oxide	3.46	4.51	3.03	1.93	2.01
28182010	Alumina calcined	0.58	0.93	1.45	1.20	0.98
28230010	Titanium dioxide	2.00	1.14	1.25	1.16	1.07
28230090	Other titanium oxides	10.42	31.71	57.33	30.61	18.59
28259090	Other inorganic bases metal oxides hydroxides and peroxides		0.89	2.83	2.12	1.03
Total of Top Exports to Japan		36.75	68.11	89.38	52.11	37.87
Total Exports to Japan under the Chapter		43.76	76.16	95.62	58.58	44.39
Share of Top Exports to Total Exports		83.98	89.43	93.47	88.96	85.31

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India

declined thereafter to US$ 18.59 million. The preferential tariff for India on this product is zero while the MFN tariff is 4 per cent in 2015. It is interesting to note that while Japanese statistics too indicate a decline in import of this product from India the value of imports is much lower. In 2010, Japan's imports of this product from India stood at JPY 135 million which increased to JPY 185 million in 2012 but declined thereafter to JPY 59 million in 2014.

Exports of other items

Exports of a few items which do not figure in India's top exports to Japan but find a place in Japan's top twenty imports from India also deserve a mention. Oil meals are amongst Japan's top twenty imports from India in 2014 despite a steady decline in imports from JPY 50.30 billion in 2012 to JPY 10.07 billion in 2014. A similar trend is observed in India's exports of products under this Chapter, which showed a decline from US$ 472 million in 2011-12 to US$ 43 million in 2014-15. This decline is largely due to a sharp decline in the exports of soyabean meal from India. India's export of this product to other markets has also declined considerably in the same period.[24] On the other hand, Japan is increasingly sourcing its imports of this product from countries like China (China's share of Japan's total imports of soyabean meal has increased from 30 per cent in 2013 to 52 per cent in 2014) and Korea (Japan's imports of soyabean meal from Korea have more than doubled between 2013 to 2014).

Exports of leather articles (HS 42) from India showed a steady rise from US$ 13 million in 2010-11 to US$ 29 million in 2014-15 and are amongst Japan's top imports from India. India's major exports to Japan under this Chapter are leather wallets and handbags and shopping bags of cotton both of which are included under the tariff liberalisation category B10. While the CEPA preferential tariffs on these products are lower than the MFN rates (MFN on leather wallets is 10 per cent while preferential tariff for India is 4.4 per cent

24 India's exports of soyabean meal declined from US$ 1968.49 million in 2013-14 to US$ 595 million in 2014-15.

and MFN on cotton shopping bags is 8 per cent while the preferential tariff is 3.5 per cent), the concessional tariff for countries like Malaysia, Thailand and Indonesia as well as LDC's is zero.

Another set of products which figure in Japan's list of top imports from India is salts and sulphur (HS 25). India's exports of these products have increased slightly from US$ 32 million in 2010-11 to US$ 39 million in 2014-15. India's major export to Japan under this Chapter is other salts (HS 25010090: Salt including table salt and denatured salt) and pure sodium chloride, whether or not in aqueous solution or containing added anti-caking or free-flowing agents; sea water) whose exports have increased from US$ 10 million in 2010-11 to US$ 17 million in 2014-15. The tariff on this product was reduced to zero since 2011. However, Japan's applied MFN tariff is also zero for this product.

There has also been some increase in the exports of agricultural items from India after the CEPA implementation. Even though the exports of coffee, tea and spices have seen considerable decline, exports of black pepper under tariff liberalisation category A, has done well increasing from US$ 2 million in 2010-11 to US$ 6.88 million in 2014-15. On the other hand, export of black tea (HS 09024020) which falls under tariff category B10 has shown some variation increasing to US$ 14 million in 2011-12 and declining thereafter to US$ 10.86 million. It is to be noted that while preferential tariff for India is 1.4 per cent, it is zero for other EPA partners. Though India's share has been increasing in value terms in the Japanese market, Sri Lanka remains India's largest competitor for black tea in the Japanese market with a market share of 53.1 per cent in value terms in 2014 compared to 25.7 per cent for India in 2014. In terms of volume of imports, India's share in the Japanese market has remained almost constant during the last few years at around 20 per cent.

India's exports of dried eggs albumin (HS 35021100) have also exhibited an increase in the period after CEPA came into force increasing from US$ 5.64 million in 2010-11 to US$ 16.11 million in 2014-15 despite being under the exclusion category. Japan's applied tariff on this product is 8 per cent while the tariff for other EPA partners is zero. Japan's major sources of import of this product are Italy and Netherlands. Similarly, India's export of edible gelatine (HS 35030020) to Japan has increased from US$ 6.29 million in 2010-11 to US$ 10.86 million in 2014-15 despite being placed under the exclusion list.

India's exports of viscose rayon type yarn (HS 54031020) have also seen some increase from US$ 0.72 million in 2011-12 to US$ 11.71 million in 2014-15. The tariff on all the products under this Chapter was liberalised in 2011. Japan's import of this product is very limited and India is the biggest source of import supplying almost 50 per cent of Japan's total import for this product, the other major supplier being Germany.

On the other hand, exports of castor oil (HS 15153090), which showed some increase from US$ 23.38 million in 2010-11 to US$ 31.32 million in 2011-12, have since then remained almost stagnant despite the CEPA concession. India remains the largest supplier of this item in the Japanese market.

Exports of some items have also declined considerably in the post-CEPA implementation period. Exports of soyabean meal declined considerably from US$ 454 million in 2010-11 to US$ 22 million in 2014-15. Similarly exports of Aluminium ingots declined from US$ 33 million in 2010-11 to

US$ 2.94 million in 2013-14. Though there has been a slight increase in 2014-15 with exports worth US$ 10.94 million, the level is still much lower. Exports of parts of aircrafts and spacecrafts (HS 88033000, HS 88039000) have also shown a steady decline in the period after the implementation of the CEPA from US$ 42.46 million in 2010-11 to US$ 1.51 million in 2014-15 (the MFN and preferential tariff is zero).

Table A.1.33: List of Top 25 Items with FTA Utilisation under Japan's Import from India

S. No.	HS	Product	Imports in 1000 Yen (2014)	Japan's applied MFN Tariff (2015)	Preferential Tariff for India (2015)
1	030617200	Other shrimps and prawns-other	36946502	1	0
2	720230000	Ferro-silicon-manganese	17885148	2.5	1.1
3	620630210	Blouses, shirt-blouses, open shirts and similar shirts: Of cotton	4220686	9.1	0
4	320417010	Pigment dyestuffs	3683575	3.5	0
5	293339220	Other	3087453	3.1	0
6	293499099	Other	2298544	3.1	0
7	720211000	Ferro-manganese: Containing by weight more than 2 % of carbon	2224457	6.3	2.7
8	620442200	Dresses : Of cotton	2223533	9.1	0
9	151530000	Castor oil and its fractions	2163193	4.5	0
10	382319000	Industrial monocarboxylic fatty acids; acid oils from refining : Other	1934519	2.5	0
11	293399099	Other	1909181	3.1	0
12	290391000	Chlorobenzene, o-dichlorobenzene and p-dichlorobenzene	1805295	3.1	0
13	630260000	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics, of cotton	1675480	7.4	0
14	90240210	Black tea	1639858	3	1.4
15	520548021	Consisting wholly of cotton	1627484	2.3% or 17 yen/ kg, whichever is the greater	0
16	280300000	Carbon (carbon blacks and other forms of carbon not elsewhere specified or included)	1599260	3.9	0
17	420231200	Articles of a kind normally carried in the pocket or in the handbag With outer surface of leather or of composition leather: Other	1431011	10	4.4
18	620520000	Men's or boys' shirts of Cotton	1281825	7.4	0
19	291620000	Cyclanic, cyclenic or cycloterpenic monocarboxylic acids, their anhydrides, halides, peroxides, peroxyacids and their derivatives	1173032	4.3	0

Table A.1.33 continued...

Table A.1.33 continued...

S. No.	HS	Product	Imports in 1000 Yen (2014)	Japan's applied MFN Tariff (2015)	Preferential Tariff for India (2015)
20	540310020	High tenacity yarn of viscose rayon: Other	1093130	4	0
21	621490210	Shawls, scarves, mufflers, mantillas, veils and the like: Of cotton	1058275	9.1	0
22	292429090	Carboxyamide -function compounds; amide-function compounds of carbonic acid-Other	1008465	3.1	0
23	420292000	Containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper-With outer surface of plastic sheeting or of textile materials	1006933	8	3.5
24	160521029	Shrimps and prawns prepared or preserved-Not in airtight container-Other	1006806	5.3	2.9
25	200899225	Containing by weight more than 2 % of carbon	993187	9.6	0

Source: Compiled from data available on JETRO website (https://www.jetro.go.jp/en/reports/statistics/).

Conclusions

India-Japan CEPA provided Indian exporters with an opportunity to access Japanese domestic market by effecting reduction of tariffs on a number of tariff lines. Tariffs on key sectors such as engineering items, automotives, chemicals, pharmaceutical products, rubber products, cotton, textiles and garments were reduced immediately after the CEPA implementation. Tariffs on other products of export interest to India such as marine products are coming down and will be eliminated by 2021.

Despite the fact that tariffs in Japan are generally lower and a high percentage of tariff lines are already zero, the CEPA utilisation for certain products has been quite high (Table A.1.33). Even though the preference margin available is low, exports of some of these items are using the CEPA concessions for exporting to Japan. Exports of shrimps and prawns, ferro-silicon manganese, black tea and certain chemicals fall under this category. On the other hand, the margin of preference is considerably higher for textile items and they are also being imported using the CEPA concessions.

For certain sectors, while the CEPA margin of concession is fairly substantial, Indian exporters have not been able to take due advantage. Cotton textiles and garments constitute one such sector where Japan has eliminated tariff for all tariff lines. Despite this, there has only been a modest increase in India's exports of these products to Japan even with the declining dominance of China in the Japanese market. Even in the pharmaceutical sector, though there has been a steady increase in India's exports to Japan, the potential is still far from being realised.

Annexure 2

India's Imports from Japan: Impact of India Japan-CEPA

India's imports from Japan fluctuated considerably between 2007-08 and 2014-15. In the period just after CEPA came into force, imports rose sharply from US$ 8.63 billion in 2010-11 to US$ 11.99 billion in 2011-12 registering a growth rate of 39 per cent. They reached a peak of US$ 12.41 billion in 2012-13, but there was a sharp decline in the next year with imports falling by 24 per cent to US$ 9.47 billion in 2013-14. There was a slight recovery in 2014-15 with imports increasing by 6.86 per cent to US$ 10.13 billion in 2014-15 but these did not attain the peak of 2012-13. As will be seen from Table A.2.1, Japan's market share in India's global imports has also seen some decline.

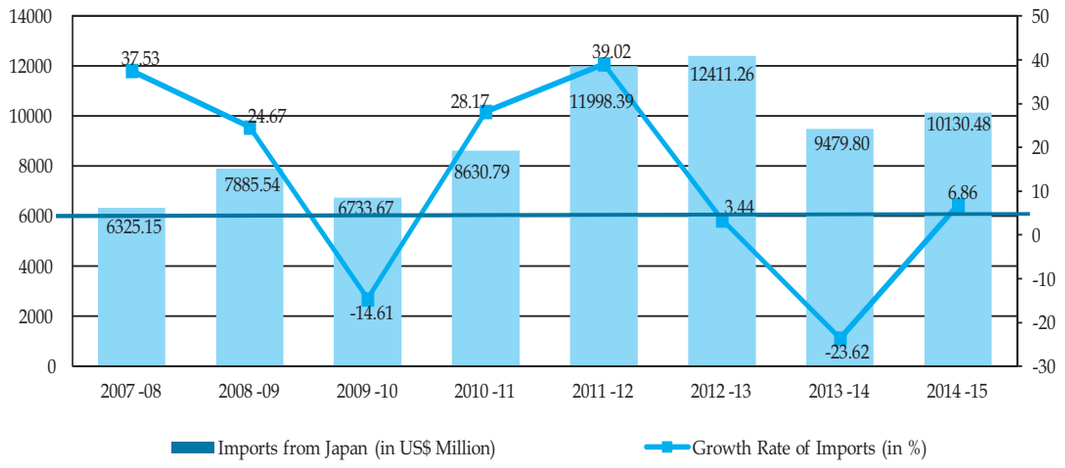
After computing four years averages of import values before and after the CEPA implementation, it was found that while such an average for global imports increased by 54.78 per cent, the average for India's imports from Japan increased by only 48.84 per cent. The CEPA tariff concessions therefore do not appear to have resulted in any sharp surge on the whole. However actual tariff reductions on a majority of tariff lines (63.45 per cent) under tariff category B10, which will come to zero by 2021, are yet to show their full impact. Only, tariffs on about 2074 tariff lines were brought down to zero immediately in 2011. Further, India has a list of about 1538 items which are exempted from any tariff concession.

Table A.2. 1: India's Imports from Japan and the World

Year	India's Global Imports (in US$ million)	Growth Rate of Global Imports	India's Imports from Japan (in US$ million)	Growth rate of imports from Japan	Japan's share of India's Total imports (in %)
2007-08	251654.01	35.49	6325.15	37.53	2.51
2008-09	303695.85	20.68	7885.54	24.67	2.60
2009-10	288372.40	-5.05	6733.67	-14.61	2.34
2010-11	369768.66	28.23	8630.79	28.17	2.33
2011-12	489318.95	32.33	11998.39	39.02	2.45
2012-13	490736.16	0.29	12411.26	3.44	2.53
2013-14	450199.32	-8.26	9479.80	-23.62	2.11
2014-15	448044.14	-0.48	10130.48	6.86	2.26

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Figure A.2. 1: India's Imports from Japan



Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2.2 gives India's top imports from Japan in 2014-15 which accounted for 95 per cent of India's total imports from Japan. The top twenty HS chapters in which imports took place remained more or less the same during the previous four years except for imports of photographic and cinematographic goods (HS 37) and gems and jewellery (HS 71) which were replaced by copper and articles thereof (HS 74) and nickel and articles thereof (HS 75).

Machinery and mechanical appliances (HS 84) remained the top most import item rising steadily from US$ 2.6 billion in 2010-11 to US$ 3.64 billion in 2012-13. However, imports declined to US$ 2.4 billion in 2014-15 with a share of 24.35 per cent in India's total imports. It is noteworthy that the top three HS chapters, i.e machinery, iron and steel and electrical equipment (HS 84, 72 and 85) accounted for over 50 per cent of imports from Japan. Additionally, imports of items such as iron and steel (HS 72), ships, boats and floating structures (HS 89), plastics (HS 40), copper (HS 74) and nickel (HS 75) steadily increased in the period after CEPA was implemented. On the other hand, imports of electrical machinery and equipment (HS 85) after initially going up, registered a decline.

Looking at the Japanese trade figures (Table A.2.3), for Japan's exports to India, they follow the same trend as reflected in Indian statistics. Japanese exports to India reached the peak in 2011-12, around the same time CEPA began to be implemented. However, Japan's exports to India declined to US$ 8.16 billion in 2014 and US$ 8.11 billion in 2015. The share of Japan's exports to India in relation to Japan's total exports also showed a decline but there is some revival on their account in 2015.

India's imports from Japan will now be analysed HS Chapterwise particularly with reference to the tariff concessions applicable to them under CEPA.

Table A.2. 2 : India's Top Imports from Japan

(in US$ million)

Chapter	Description	2010-11	2011-12	2012-13	2013-14	2014-15
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	2661.01 *30.83*	3876.26 *32.31*	3648.71 *29.40*	2597.28 *27.40*	2466.61 *24.35*
72	Iron and steel	1049.41 *12.16*	1280.19 *10.67*	1636.74 *13.19*	1289.7 *13.60*	1453.79 14.35
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts.	1062.00 *12.30*	1348.54 *11.24*	1278.79 *10.30*	1057.84 *11.16*	959.83 *9.47*
89	Ships, boats and floating structures.	171.75 *1.99*	130.86 *1.09*	1099.42 *8.86*	438.43 *4.62*	944.08 *9.32*
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof.	472.38 *5.47*	644.36 *5.37*	592.7 *4.78*	527.95 *5.57*	551.97 *5.45*
90	Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. And apparatus parts and accessories thereof;	457.11 *5.30*	610.46 *5.09*	618.26 *4.98*	547.16 *5.77*	544.41 *5.37*
39	Plastic and articles thereof.	279.86 *3.24*	346.35 *2.89*	400.84 *3.23*	367.38 *3.88*	442.61 4.37
29	Organic chemicals	424.81 *4.92*	381.18 *3.18*	373.02 *3.01*	388.59 *4.10*	413.34 *4.08*
73	Articles of iron or steel	315.88 *3.66*	453.06 *3.78*	437.62 *3.53*	416.75 *4.40*	397.14 *3.92*
98	Project goods; some special uses.	243.54 *2.82*	627.19 *5.23*	385.48 *3.11*	143.76 *1.52*	287.13 *2.83*
40	Rubber and articles thereof.	244.79 *2.84*	331.94 *2.77*	341.51 *2.75*	272.85 *2.88*	262.6 *2.59*
38	Miscellaneous chemical products.	156.43 *1.81*	182.11 *1.52*	199.06 *1.60*	178.0 *1.88*	187.77 1.85
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	143.30 *1.66*	347.22 *2.89*	304.55 *2.45*	250.35 *2.64*	159.37 *1.57*
74	Copper and articles thereof.	28.74 *0.33*	44.28 *0.37*	45.6 *0.37*	58.67 *0.62*	130.39 *1.29*
82	Tools implements, cutlery, spoons and forks, of base metal; parts thereof of base metal.	100.75 *1.17*	144.15 *1.20*	135.01 *1.09*	143.04 *1.51*	127.17 *1.26*
54	Man-made filaments.	59.81 *0.69*	63.94 *0.53*	76.47 *0.62*	77.88 *0.82*	82.66 *0.82*
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, or radi. Elem. Or of isotopes.	70.49 *0.82*	113.09 *0.94*	105.3 *0.85*	99.63 *1.05*	79.37 0.78
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring prep.	58.11 *0.67*	61.49 *0.51*	67.78 *0.55*	67.52 *0.71*	73.7 *0.73*
32	Tanning or dyeing extracts; tannins and their derivatives Dyes, pigments and other colouring matter; paints and ver; putty and other mastics; inks.	65.32 *0.76*	67.28 *0.56*	60.83 *0.49*	54.16 *0.57*	60.82 *0.60*
75	Nickel and articles thereof.	8.29 *0.10*	33.87 *0.28*	38.83 *0.31*	21.7 *0.23*	48.17 *0.48*
Total of Top 20 Imports		8073.78	11087.8	11846.5	8998.64	9672.93
Total Imports from Japan		8630.79	11998.4	12411.3	9479.8	10130.5
Share of Top 20 Imports to Total Imports from Japan		93.55	92.41	95.45	94.92	95.48

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.
Note: Figures in italics indicate share to total imports during the year.

Table A.2. 3: Japan's Exports to India			
Year	Japan's Exports to India (in US$ million)	Japan's Global Exports (in US$ million)	India's share in Japan's Total Exports (in %)
2009	6335.64	580786.60	1.09
2010	9019.75	767025.01	1.18
2011	11045.26	820793.17	1.35
2012	10623.34	801334.63	1.33
2013	8666.76	719204.86	1.21
2014	8163.47	694270.28	1.18
2015	8107.31	625067.63	1.30

Source: Japan External Trade Organisation (JETRO), October 2015 (https://www.jetro.go.jp/en/reports/statistics/)

Chapter 84: Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof

Imports of machinery and mechanical appliances from Japan form a sizeable share of India's imports from Japan, though it has gradually come down from about 30 per cent in 2010-11 to 24 per cent in 2014-15. Imports of these items rose sharply in the first year after the CEPA came into force from US$ 2.66 billion in 2010-11 to US$ 3.87 billion in 2011-12 but declined steadily thereafter to US$ 2.46 billion in 2014-15, a level lower than that prevailing when CEPA into force. India's global imports of these products have also shown a not too dissimilar trend.

Out of a total of 1068 tariff lines in the Chapter, tariffs on 64 tariff lines at 8-digit level were reduced immediately after CEPA came into force while 144 tariff lines were exempted from any tariff liberalisation (Table A.2.4). However for about 80 per cent of the tariff lines, tariffs will gradually come down to zero by 2021. The base rate tariff on these products ranged between 5-10 per cent while the preferential tariff in 2015 ranges between 2.5-6 per cent. The tariff liberalisation on one tariff line i.e. engines of cylinder capacity exceeding 250 cc (HS 84082020) was however specified differently. The preferential tariff on this product stood at 6.8 per cent as applicable from 1 January 2015. Interestingly, the import of this item from Japan increased substantially over the years from US$ 30 million in 2010-11 to US$ 172 million in 2012-13. Though there was some decline in 2013-14, the imports of this product rose again in 2014-15 to US$ 110 million despite a decline in India's global imports of this product. The tariff on this product was reduced from 10.62 per cent in 2011, to 6.8 per cent in 2015. The MFN tariff on the product was 7.5 per cent in 2015.

Table A.2. 4: India's Tariff Reduction Commitments under HS Chapter 84							
Chapter	Description	A	B10	B5	SPECIAL CASE	X	Total
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	64 *5.99*	855 *80.06*	4 *0.37*	1 *0.09*	144 *13.48*	1068 *100.0*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Table A.2. 5: India's Top Imports from Japan under HS Chapter 84						
Hs Code	Description	Imports from Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
8406	Steam turbines and other vapour turbines	29.44	220.37	111.18	42.2	36.83
8407	Spark-ignition reciprocating or rotary internal combustion piston engines	36.3	84.67	46.82	18.29	7.55
8408	Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)	75.21	175.96	205.47	106.26	129.71
8409	Parts suitable for use solely or principally with the engines of heading 8407 or 8408	92.42	146.34	129.62	168.1	134.5
8411	Turbo-jets, turbo-propellers and other gas turbines	26.33	29.81	22.39	17.35	15.82
8412	Other engines and motors	26.33	49.5	50.25	29.49	33.62
8413	Pumps for liquids, whether or not fitted with	86.41	131.01	122.48	83.1	69.96
8414	Air/vacuum pumps, air/other gas compressors and fans; ventilating/recycling hoods incorporating a fan, w/n fitted with filters	164.14	241.46	174.03	54.1	170.19
8415	Air-conditioning machines, compressing motor-driven fan and elements for changing temperature and humidity ,incl those machines in which humidity cannot be sprtl	56.53	70.47	69.18	46.49	36.98
8419	Machinery, plant/laboratory equipment, w/n electrically heated, for heating, cooking, etc, excl machinery for domestic purpose storage water heaters	35.93	42.03	85.43	29.37	19.79
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases	37.98	37.47	41.86	33.27	33.77
8422	Dish washing machines; machinery for cleaning or drying bottles or other containers; machinery for filling, c	14.04	27.81	28.49	20.61	21.09
8424	Mechanical appliances (w/n hand-operated)for prjctng, dispersing lqds/powder; fire extinguisher, w/n charged; spry guns and like; stm/snd blasting and similar	15.17	37.53	22.13	28.66	5.89
8426	Derricks; cranes, incl cable cranes; mobile lifting firms, straddle cars and works tracks fitted with a crane	67.87	59.55	11.66	1.5	0.62
8428	Other lifting, handling, loading or unloading machinery (for example, lifts, escalators, conveyors, teleferics)	20.88	48.27	37.7	44.84	14.42
8429	Self-propelled bulldozers, angledozers, graders levellers, scrapers, mechanical shovels, excavators, shovel loaders, tamping machines and road roll	106.01	84.91	53.4	33.21	39.49
8431	Parts suitable for use solely/principally with the machinery of hdgs.nos.8425 to 8430	96.38	200.51	98.16	59.43	60.75
8437	Machine for cleaning, starting seed, grain/leguminous vegetable; machinery for milling industry/for working of cereal/ dried leguminous vegetables, excl farm-type	14.76	11.32	5.7	5.21	1.43

Table A.2.5 Continued...

Table A.2.5 Continued...

Hs Code	Description	Imports from Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
8443	Printing machinery, incl ink-jet printing machines excl hdng. No 8471; machines for uses ancillary to printing.	182.54	190.63	203.46	163.57	183.15
8445	Machines for preparing textile fibres; spinning, twisting etc machinery for producing textile yarns; machines for preparing textile yarns for use on machines of 8446/84	92.65	119.8	75.96	107.34	106.97
8446	Weaving machines (looms)	86.6	90.83	99.77	123.12	84.63
8447	Knitting machines, stich-bending machines and machines for making gmpd yarn, tulle, lace, embroidery, trimming, braid/net and machines for tufting	31.7	19.45	17.77	24.55	27.96
8448	Auxiliary machinery used with machines of hdg 8444, 8445,8446/8447;prts and accessories used with this hdg/of hdg 8444,8445,8446/8447	27.01	44.1	39.6	40.56	31.17
8452	Sewing machines, excl book-sewing machines of hdg no 8440;furntr,bases and covers specially designed for sewing machines; sewing machines needles	29.87	17.64	17.18	18.06	21.13
8454	Converters, ladles, ingot moulds and casting machines used in metallurgy/in metal foundries	42.48	45.84	55.94	17.42	19.46
8455	Metal-rolling mills and rolls therefor	14.44	45.17	163.65	93.07	45.69
8457	Machining centres, unit construction machines (single station) and multi- station transfer machines for workin	148.82	146.13	185.84	100.62	119.39
8458	Lathes (including turning centres) for removing metal	36.76	52.32	67.49	38.39	37.38
8459	Machine-tools (incl way-type unit head machines) for drilling, borng, milling, threading/taping by removing metal, excl laths of hdg no. 8	47.95	25.48	71.81	30.69	34.89
8460	Machine-tools for dburngs, sharpening, grinding, hning polishing/otherwise finishing metal etc, crmts by grinding stones, gear grinding machines of hd	25.66	73.5	90.72	43.76	60.72
8461	Machine-tools for planning, shaping, slotting, broaching gear cutting/grinding/finishing etc working by removing metal, cermets n.e.s./included	28.43	69.71	50.87	22.13	28.58
8462	Machine-tools for working metal by forging, hammering/ die-stamping; for working metal by bending, folding, etc; presses for working metal/metal carbides,	97.01	149.91	168.62	58.89	59.23
8466	Parts and accessories suitable for use with machines of hdg nos8456 to 8465,incl work/tool holders, self-opening dieheads, etc; tool h	64.94	88.84	88.94	83.2	85.36
8471	Automatic data processing machines and units	21.85	22.71	23.01	21.9	20.44
8477	Machine for working rubber/plastics/for the manufacture of products from these materials, n.e.s.	60.99	88.81	87.36	85.39	63.72
8479	Machines and mechanical appliances having individual functions, n.e.s.	121.85	207.93	244.18	231.27	150.02
8480	Moulding boxes for metal foundry; mould bases; moulding patterns; moulds for metal (other than ingot moulds)	41.32	37.69	27.96	35.27	30.09

Table A.2.5 Continued...

Table A.2.5 Continued...

Hs Code	Description	Imports from Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing	78.51	115.68	115.3	81.93	89.98
8482	Ball or roller bearings	124.62	157.99	132.28	105.25	97.26
8483	Transmission shafts and cranks; gears; ball screws; bearing housing and other plain shaft bearings speed changers	68.09	97.76	114.54	102.18	87.14
8486	Machines and apparatus of a kind used solely for the manufacture of semiconductor boules or wafers	15.75	5.14	5.21	1.87	1.55
Total of Top Imports Under the Chapter		2491.9	3612.1	3463.4	2451.9	2318.3
Total Imports under the Chapter		2661.0	3876.3	3648.7	2597.3	2466.6
Share of Top Imports to Total Imports		93.65	93.18	94.92	94.4	93.99

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Details of India's top imports from Japan under this Chapter are given in Table A.2.5. Mirroring the trend in the overall imports under the Chapter, imports of some of the products like parts of turbines, parts of spark-ignition engines, gas compressors, parts of air conditioning machines and parts of construction machinery, showed some surge in imports in the period just after the coming into force of CEPA, which subsided in the later years. Imports of Textile machinery also rose from US$ 279 million in 2010-11 to US$ 319 million in 2013-14 but declined in 2014-15. A similar trend is observed in imports of machine tools which increased substantially from US$ 463 million in 2010-11 to US$ 748 million in 2012-13 but have come down in recent years.

There was a decline in imports of those goods on which tariff was fully eliminated in 2011 (Table A.2.6). On the other hand, there was some growth in import of goods under the exclusion category particularly of products such as component parts of petrol engines for motor vehicles, parts of spark-ignition engines and gas compressors. However, the most noticeable increase in imports was witnessed in the case of imports of internal combustion engines greater than 250 cc capacity (HS 84082020) which increased from US$ 30.48 million in 2010-11 to US$ 125 million in 2011-12 and US$ 173 million in 2012-13, though it came down slightly to US$ 110.73 in 2014-15.

Domestic manufacturers have pointed to a case of inverted duty structure for several key machinery items including CNC machines. The producers have complained that while the complete machinery is included under the tariff concessions (generally granted higher concessions), duties on imported intermediate inputs (which are not domestically produced) are either not included under the tariff concessions or have a higher phase out period. Hence, this leads to the issue of inverted duty structure which adversely impacts the cost competitiveness of Indian manufacturers. For example, the Indian Machine Tool Manufacturers' Association (IMTMA) have identified four such critical components namely, CNC Systems (HS 8537100) (under category B10), Linear motion guideways (HS 84669390) (under

Table A.2. 6: Growth in Imports of Products under Different Tariff Liberalisation Categories			
Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
A	156.86	141.15	-10.02
B10	2035.87	1713.70	-15.82
B5	48.26	47.94	-0.66
SPECIAL CASE	30.48	110.73	263.29
X	383.27	451.26	17.74
Total	2661.01	2466.61	-7.31

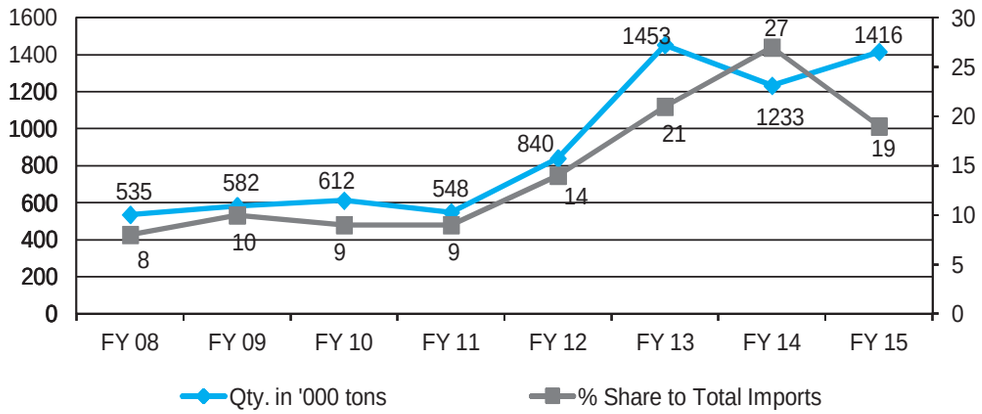
Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

category B10), Ball screws (HS 84834000) (under the Exclusion list), and Precision bearings (HS 84828000) (under category B10), on all of which greater tariff concession would greatly benefit the Indian machine tool industry since these are wholly imported.

Chapter 72: Iron and steel

India's imports of iron and steel from Japan increased from US$ 1.05 billion in 2010-11 to US$ 1.63 billion in 2012-13 and declined thereafter to US$ 1.29 billion in 2013-14. However, the figures for 2014-15 showed some revival with imports rising to US$ 1.45 billion. The same trend is observed in India's imports of iron and steel globally. Figure A.2.2 gives India's imports of steel from Japan in tonnage terms. India's imports of steel from Japan increased from 548 million tonnes in 2010-11 to 1453 million tonnes in 2012-13. There was a slight decline in the subsequent year. However, imports increased to 1416 million tonnes in 2014-15. Japan's share in India's total imports of

Figure A.2. 2: India's Imports of Iron and Steel from Japan



Source: Joint Plant Committee.

Table A.2. 7: India's Tariff Reduction Commitments under HS Chapter 72				
Chapter	Description	B5	B10	Total
72	Iron and steel	448 *88.89*	56 *11.11*	504 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

steel in tonnage terms also increased from 9 per cent in 2010-11 to 19 per cent in 2014-15. Figures for the first quarter of FY 2016 indicate that imports from Japan grew at the rate of 79 per cent when compared to imports during the first quarter of FY 2015.

India's tariff liberalisation schedule under CEPA is fairly liberal with tariffs on a large majority of tariff lines scheduled to be eliminated by 2016 (Table A.2.7). While the average MFN tariff on these products was 6.31 per cent in 2015, the preferential tariff for Japanese imports was 0.8 per cent. Tariffs on 56 tariff lines under this chapter are, however, scheduled to be eliminated by 2021, and the average preferential tariff on these products was 2.8 per cent in 2015 compared to the MFN tariff of about 4.95 per cent.

India's leading imports from Japan under the Chapter are given in Table A.2.8. There was a substantial increase in India's imports of flat rolled products in coils (hot rolled) (HS 7208) from Japan with imports increasing from US$ 153 million in 2010-11 to US$ 429 million in 2014-15. These products figure in the B5 category and enjoyed a preferential tariff of 0.8 per cent in 2015 as opposed to the MFN tariff of 7.5 per cent. There are reports that certain Japanese companies are exporting steel at a price lower than the prevailing domestic price in Japan, further hurting the domestic producers. According to Indian Steel Association, the difference between the domestic and export price for HR coils from Japan increased from 7 per cent in January 2013 to 34 per cent in June 2015. In September 2015, the Government of India also imposed a safeguard duty of 20 per cent on import of hot-rolled flat products of non-alloy and other alloy steel with a width of 600 mm or above for a period of 200 days.[25] In January 2016, the Government has further announced, valid for a period of six months, a Minimum Import Price (MIP) on several iron and steel products that will be valid not only for Japan but also other countries.

Despite the same tariff advantage, imports of cold rolled products (HS 7209) on the other hand, decreased from US$ 211 million to US$ 144 million in the same period. Flat-rolled products of other alloy steel (HS 7225) however also showed a steady increase in the period after the CEPA implementation increasing from US$ 173 million in 2010-11 to US$ 318 million in 2014-15. Imports of flat-rolled products or iron and steel (not clad, plated or coated) (HS 7210) showed some increase in the period just after the CEPA implementation, increasing from US$ 213 million in 2010-11 to US$ 280 million in 2012-13 but declined thereafter to US$ 190 million in 2014-15. Imports of Ferro-nickel also showed some

25 http://www.business-standard.com/article/economy-policy/jaitley-announces-20-safeguard-duty-on-imported-steel-115091400930_1.html

Table A.2. 8: India's top Imports from Japan under HS Chapter 72							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
7202	Ferro-alloys	45.52	24.02	82.03	86.78	75.73	B10[26]
7204	Ferrous waste and scrap; remitting scrap ingots	3.71	2.38	6.02	6.41	7.35	B10[27]
7208	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated	153.24	320.84	464.09	332.71	429.24	B5
7209	Flat rolled products of width>= 600mm,cold-rlld (cold-reduced),not clad, plated/coated	211.93	225.03	210.61	168.81	144.81	B5
7210	Flat-rolled products of iron/non-alloy steel of width >=600 mm, clad, plated/coated	213.09	254.35	280.89	200.56	190.84	B5
7212	Flat-rolled products of iron/non-alloy steel of a width<600 mm, clad, plated/coated	15.18	18.51	18.38	12.65	10.57	B5
7213	Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel	13.02	2.78	8.46	2.1	3.47	B5
7216	Angles, shapes and sections of iron/non-alloy steel	0.41	3.49	34.85	32.57	22.96	B5
7219	Flat-rolled products of stainless steel of width>=600 mm	34.96	61.09	74.01	55	69.15	B5
7220	Flat-rolled products of stainless steel, of a width of less than 600 mm	33.45	22.55	22.92	17.93	15.32	B5
7221	Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel	0.95	3.97	9.88	2.26	3.99	B5
7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel	8.85	11.74	7.15	4.85	5.93	B5
7223	Wire of stainless steel	10.05	9.14	12.65	12.5	13.51	B5
7225	Flat-rolled products of other alloy steel of width 600 mm or more	173.59	174.64	249.34	236.31	318.56	B5
7226	Flat-rolled products of a width of <600 mm	19.95	12.42	7.73	4.59	10.77	B5
7227	Bars and rods, hot-rolled, in irregularly wound coils, of other alloy steel	17.53	21.38	11.82	11.91	20.39	B5
7228	Other bars ,rods, angles, shapes, sections of other alloy steel, hollow drill bars and rods of alloy or non-alloy steel	67.67	84.85	82.99	74.34	74.42	B5
7229	Wire of other alloy steel	13.2	13.94	18.9	16.19	18.69	B5
Total of Top Imports Under the Chapter		1036.3	1267.1	1602.7	1278.5	1435.7	
Total Imports under the Chapter		1049.4	1280.2	1636.7	1289.7	1453.8	
Share of Top Imports to Total Imports		98.75	98.98	97.92	99.13	98.76	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

26 Tariff lines are under B10 while 6 are under B5.
27 Tariff lines are under B10 while 4 are under B5.

Table A.2. 9: Growth in Imports of Products under Different Tariff Liberalisation Categories			
Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
B5	975.09	1367.63	40.26
B10	45.94	78.22	70.27
N/A	28.38	7.94	-72.02
Total	1049.41	1453.79	38.53

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

rise. It must be noted however that the MFN tariff on this product (2.5 per cent) was lower than the preferential tariff (2.7 per cent) in 2015.

Overall there was growth in the imports of products under both the B5 and B10 categories. However imports under the B5 category had a far greater share in the imports under this chapter (Table A.2.9).

Chapter 85: Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts

Imports of electrical machinery and equipment from Japan increased in the immediate aftermath of CEPA implementation from US$ 1.06 billion in 2010-11 to US$ 1.34 billion in 2011-12 and declined steadily thereafter to US$ 959 million in 2014-15. In the same period, India's global imports of these products too exhibited the same trend. However India's global imports revived somewhat in 2014-15.

Out of a total of 595 tariff lines, tariffs on 107 were eliminated completely on 1st August 2011 (Table A.2.10). These included also many ITA-1 products on which MFN duties were already zero. The average MFN tariff on the remaining products was 3.22 per cent in 2015. Tariffs on 2 tariff lines are to be eliminated by 2016 while tariffs on 383 tariff lines are to be eliminated by 2021. The preferential tariff on these products was about 4.64 per cent in 2015 compared to the MFN tariff of 8.49 per cent. Further, 102 tariff lines are exempted from any tariff liberalisation. The MFN tariff on these products was 8.49 per cent on an average.

Table A.2. 10: India's Tariff Reduction Commitments under HS Chapter 85						
Chapter	Description	A	B5	B10	X	Total
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts.	107 *17.98*	2 *0.34*	383 *64.37*	102 *17.14*	595 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Imports of some of the products under this Chapter followed the trend visible at the chapter level (Table A.2.11). These include parts of electric motors (DC), videophone, digital cameras, boards, etc., for a voltage<=1000 volts, solar cells/photovoltaic cells whether or not assembled in module/panel, etc. Imports of some products have, however, increased steadily in the period after the CEPA implementation. These include Universal AC/DC motors, parts of electrical ignition or starting equipment used in spark ignition, automatic spot welding machinery, video camera recorders, other fixed capacitors, etc. On the other hand, imports of products such as parts of other rotating electric plants, other rectifiers, parts of electrical machines and apparatus having individual functions, winding wires of other metals/substance, electric conductors and conductors have steadily declined.

Table A.2. 11: India's Top Imports from Japan under HS Chapter 85

Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
8501	Electric motors and generators (excl generating sets)	34.26	34.23	69.28	65.31	35.65	B10[28]
8503	Parts suitable for use solely or principally with the machines of heading 8501 or 8502	40.98	41.77	41.32	31.37	30.58	B10
8504	Electrical transformers, static converters (for example, rectifiers) and inductors	61.31	57.65	57.86	87.93	63.42	B10[29]
8505	Electro-magnet; permanent magnets and articles to make permanent magnet; electromagnetic/permanent devices electromagnetic clutches, brakes and l	11.73	11.14	11.06	7.15	5.79	B10[30]
8507	Electro accumulators, incl separators therefor w/n rectangular(incl sq)	4.45	6.36	5.89	23.44	13.82	B10
8511	Electrical ignition/starting equipment for spark-ignition etc generators etc and cut outs of a kind used in conjunction with such engines	40.24	59.22	63.62	62.72	58.53	X[31]
8514	Industrial/laboratory electric (incl induction/ dielectric)furnaces etc; other industrial/ laboratory induction/ dielectric heating eqp	12.08	4.95	8.92	10.93	4.64	B10
8515	Electric (incl electrically heated gas) laser/other light/photon beam etc, brazing/soldering machines etc for hot spraying of metals/cermets	34	59.12	54.57	55.2	42.85	B10[32]

Table A.2.11 Continued...

28 Out of a total of 43 tariff lines, 22 are B10 and 21 are X.
29 Out of a total of 23 tariff lines, 14 are B10 and 6 are A and 3 are X.
30 Out of a total of 5 tariff lines 4 are B10 and 1 is A.
31 Out of a total of 9 tariff lines, 5 are X and 4 are B10.
32 Out of a total of 13 tariff lines, 6 are B10, 6 are X and 1 is B5.

Table A.2.11 Continued...

Product	Description	Imports from Japan in US$ million					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
8517	Electrical apparatus for line telephony/ telegraphy, incl telephone sets with cordless handset carrier-current line system; videophone	135.29	67.6	46.58	32.76	35.37	A
8518	Microphones and stands thereof; loudspeaker, w/n mounted headphone, earphone and combined microphone/ speaker sets; audio frequency amplifier; sound amplify	10.65	3.2	2.94	2.89	2.78	B10[33]
8523	Prepared unrecorded media for sound recording/similar recording of other phenomena, other than products of ch.37	48.89	49.96	33.68	30.23	30	B10[34]
8525	Transmission apparatus fr radio, telephony etc w/n incorporating reception apparatus/sound recording/ reproducing apparatus; TV cameras	64.93	83.23	92.96	81.22	84.03	B10[35]
8528	Reception apparatus, wh/not incorporating radio broadcast receivers/ sound/video recording/ reproducing apparatus, video monitors	15.32	22.36	13.04	10.76	9.45	X[36]
8529	Parts suitable for use solely/principally with apparatus of hdgs nos 8525 to 8528	10.41	12.9	22.08	10.34	11.05	B10[33]
8532	Electrical capacitors fixed, variable/ adjustable(pre-set)	24.6	46.17	39.39	29.15	29.48	A
8533	Electrical resistors(incl rheostats and potentiometers) other than heating resistors	11.02	16.11	25.07	15.22	16.53	A
8536	Electrical apparatus for switching/ protecting electrical circuits etc.(e.g. switches relays etc.) For a voltage not exceeding 1000 volts	83.7	147.83	148.46	104.91	96.58	B10[38]
8537	Boards panels etc equipped with two or more apparatus of hdg 8535/8536,incl those incorporating instruments/ apparatus of ch 90	56.35	96.13	73.59	68.88	59.99	B10
8538	Parts suitable for use solely/ principally with the apparatus of hdg no.8535,8536/8537	27.48	48.5	47.25	36.87	39.36	B10

Table A.2.11 Continued...

33 Out of a total of 8 tariff lines, 6 are B10, 1 is A and 1 is X.
34 Out of a total of 32 tariff lines, 25 are B10 and 5 are A.
35 Out of a total of 17 tariff lines, 10 are B10 and 7 are A.
36 Out of a total of 18 tariff lines, 11 are X, 4 are B10 and 3 are A.
37 Out of a total of 12 tariff lines, 11 are B10 and 1 is A.
38 Out of a total of 27 tariff lines, 23 are B10 and 4 are X.

Table A.2.11 Continued...

Product	Description	Imports from Japan in US$ million					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
8541	Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including pho	63.37	174.4	124.69	63.26	79.82	A
8542	Electronic integrated circuits and micro-assemblies	105.59	87.65	92.64	81.83	82.15	A[39]
8543	Electrical machines and apparatus, having individual functions n.e.s.in this chapter	46.4	71.78	75.35	44.92	27.07	B10[40]
8544	Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric	24.82	41.68	31.45	23.31	25.86	B10[41]
8545	Carbon electrodes, carbon brushes, lamp carbons etc. Other articles of graphite/ other carbon, with/ without metal of a kind used for electrical	20.65	12.36	4.98	9.51	5.21	B10[42]
8546	Electrical insulators of any material	12.41	9.7	6.38	0.7	0.77	B10
8547	Insulating fittings for electrical machines etc. Electrical conduit tubing and joints thereof of base metal lined with insulating material	17.91	25.31	33.96	30.32	27.02	B10
Total of Top Imports Under the Chapter		1018.8	1291.3	1227	1021.1	917.8	
Total Imports under the Chapter		1062.0	1348.5	1278.8	1057.4	959.83	
Share of Top Imports to Total Imports		95.94	95.76	95.95	96.53	95.62	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

In terms of tariff categories, products under the exclusion category have shown some increase in imports. Imports of products under B5, B10 and A category have, however, declined in the period after the coming into force of CEPA (Table A.2.12). Table A.2.13 gives imports of products under the exclusion list. There is an increase in imports of products such as parts of electrical ignition/starting equipment for spark-ignition, automatic spot welding machinery, other machines and apparatus for hot spraying of metals, etc., and other apparatus for making connections to or in electrical circuits.

It is interesting to note that despite a modest increase in imports of a few products, Japan's imports under the Chapter have not increased significantly after CEPA implementation. Though there was a slight slowdown in Japan's export of these products worldwide in the same period, exports have somewhat recovered in 2014.

39 Out of a total of 5 tariff lines, 4 are A and 1 is B10.
40 Out of a total of 39 tariff lines, 36 are B10 and 3 are A.
41 Out of a total of 29 tariff lines, 21 are B10, 6 are X and 2 are A.
42 Out of a total of 6 tariff lines, 5 are B10 and 1 is X.

Table A.2. 12: Growth in Imports of Products under Different Tariff Liberalisation Categories			
Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
A	385.95	291.82	-24.39
B5	0.32	0.22	-31.25
B10	530.53	489.71	-7.69
X	145.20	165.31	13.85
N/A	--	12.77	NA
Total	1062.00	959.83	-9.62

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

However, Japan's exports to India have been declining. On the other hand, India's import of these products from other sources has been increasing. In fact, India's import of these products from Korea with which India has an FTA has almost doubled during the same period. Almost half of India's imports from Korea under this Chapter comprise cellular phones and their parts which is the direct result of success of Korean companies most notably, Samsung, in seizing a large share of the Indian smartphone market.

Table A.2. 13: India's Top Imports of Exclusion List Items from Japan under HS Chapter 85							
		Imports from Japan (in US$ million)					
Product	Description	2010-11	2011-12	2012-13	2013-14	2014-15	Category
85011011	Micro motor with output <=37.5	3.56	0.83	1.32	0.85	1.1	X
85011019	Other motor with output <=37.5	9.06	8.06	9.36	6.86	5.39	X
85013119	Other motor with output >37.5	6.23	8.16	4.34	3.91	7.6	X
85014090	Other a.c. motors, single phase	0.43	0.37	6.89	0.34	0.16	X
85015390	Other types of a.c. motors	1.25	1.95	3.69	26.38	4.47	X
85041090	Other ballasts for discharge lamps/ tubes	4.94	0.56	0.23	0.07	0.08	X
85111000	Sparkling plugs	2.28	1.69	1.9	3.2	3.65	X
85114000	Starter metres and dual purpose starter generators	1.77	6.04	9.45	9.06	6.83	X
85115000	Other starter-generators	7.11	8.28	7.76	5.04	5.25	X
85119000	Parts of articles of hdng 8511	25.01	37.6	34.45	30.06	32.4	X
85122020	Automobile lighting equipment	0.79	1.36	1.33	2.59	3.82	X
85152110	Automatic spot welding machinery	1.46	11.24	9.12	16.88	10.48	X
85152190	Others	6.31	2.8	19.6	5.1	1.61	X
85158090	Others	7.65	17.08	10.15	18.63	16	X
85369090	Other	32.12	43.82	44.92	40.57	45.6	X
85441990	Other winding wires of other metals/substance	6.45	7.76	1.57	1.82	1.4	X

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Chapter 89: Ships, boats and floating structures

India's imports of ships and boats from Japan have shown a sharp increase in the period after CEPA coming into force from US$ 171 million in 2010-11 to US$ 944 million in 2014-15. However, the increase has not been steady, with imports of these products in fact falling to US$ 130 million in the first year of CEPA implementation. They rose sharply, however, to reach a peak of US$ 1.09 billion in 2012-13 only to decline to US$ 438 million in 2013-14. The imports have again climbed up in 2014-15.

Tariffs on all the 25 tariff lines in this Chapter are to be eliminated by 2021. The MFN applied rate on these products is 9.8 per cent while the preferential tariff was 5.38 per cent for 2015-16.

Imports of products under this Chapter have shown some variation exhibiting sudden surges and decline. Major imports under the chapter are vessels and other floating structures for breaking up and other light vessels (Table A.2.14). It must be noted that the imports of other light vessels (HS 89059090) have shown a significant increase in recent years with import value of US$ 490 million in 2014-15.

Chapter 87: Vehicles other than railway or tramway rolling stock, and parts and accessories thereof

Imports of vehicles and their parts and accessories from Japan increased significantly in the year just after the CEPA implementation from US$ 472 million in 2010-11 to US$ 644 million in 2011-12. There was, however, a slight decline in the period thereafter with imports falling to US$ 527 million in 2013-14 which recovered in 2014-15 with imports increasing to US$ 547 million.

Table A.2. 14: India's Top Imports from Japan under HS Chapter 89

Product	Description	Imports from Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
8901	Cruise ships, excursion boats , ferry- boats, cargo ships, barges and similar vessels for the transport of persons	11.80	47.37	14.39	2.46	69.58
8904	Tugs and pusher craft	17.20	10.81	93.72	41.39	40.36
8905	Light-vessels, fire-floats, dredgers, floating other similar vessels where navigability is subsidiary to their main function; floating docks; floating pl	108.48	1.97	314.19	45.07	490.68
8906	Other vessels, including warships and lifeboats other than rowing boats	0.16	0.24	183.17		
8908	Vessels and other floating structures for breaking up	33.94	69.61	492.54	348.34	343.01
Total of Top Imports Under the Chapter		171.58	130.00	1098.01	437.26	943.63
Total Imports under the Chapter		171.75	130.86	1099.42	438.43	944.08
Share of Top Imports to Total Imports		99.90	99.34	99.87	99.73	99.95

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 15: India's Tariff Reduction Commitments under HS Chapter 87						
Chapter	Description	A	B10	SPECIAL CASE[43]	X	Total
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof.	1 *0.56*	63 *35.59*	1 *0.56*	112 *63.28*	177 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

The tariff liberalisation under this Chapter is limited with tariffs on only 63 tariff lines getting eliminated in the longer phase-out period of ten years (Table A.2.15). The average applied MFN tariff on these products is about 16.94 per cent while the preferential tariff in 2015 was about 9.45 per cent. Further, 112 tariff lines are exempted from any tariff liberalisation and these include motorcycles of various grades (HS 8711), motor cars, and parts and accessories for motor vehicles. Further, for one tariff line, i.e Gear boxes (HS 87084000) the tariff liberalisation criteria is specified differently. The applied MFN tariff on this product is 10 per cent while the preferential tariff is 8.75 per cent in 2015. Import of this product has increased from US$ 62 million in 2010-11 to US$ 150 million in 2014-15. Other imports under this Chapter which show a surge are tractors, silencers and exhaust pipes, steering wheels, steering columns and steering boxes, other parts and accessories of vehicles etc. (Table A.2.16). On the other hand, imports of products such as motor cars, parts and accessories of bodies, drive axles, etc., have declined in recent years.

Table A.2. 16: India's top imports from Japan under HS Chapter 87							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
87019010	Other tractors of engine capacity <= 1800cc	3.04	10.89	12.26	4.18	7.13	B10
87019090	Other tractors	0.07	1.66	0.54	9.58	4.08	B10
87032291	Motor car with cylinder capacity>=1000cc but < 1500cc with spark-ignition	4.18	3.76	0.25	0.25		X
87032391	Motor car with cylinder capacity>=1500cc but	37.32	28.36	1.11	0.35	0.44	X
87032491	Motor car with cylinder capacity>=3000cc with spark- ignition	1.31	0.73	0.88	0.07	0.51	X
87033191	Motor cars with comparison ignition with cylinder capacity	0.16	2.05	2.86	0.1		X
87033310	Vehicles, with comparison/ignition cylinder capacity>2500 principally designed for the >7 persons including driver	2.28	3.03				X

Table A.2.16 Continued...

43 Pb(Note): (i) 11.25 per cent as from the date of entry into force of this Agreement; (ii) 10.63 per cent as from January 1, 2012; (iii) 10 per cent as from January 1, 2013; (iv) 9.38 per cent as from January 1, 2014; (v) 8.75 per cent as from January 1, 2015; (vi) 8.13 per cent as from January 1, 2016; (vii) 7.5 per cent as from January 1, 2017; (viii) 6.88 per cent as from January 1, 2018; and (ix) 6.25 per cent as from January 1, 2019.

Table A.2.16 Continued...

Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
87033391	Motor car with cylinder capacity>2500 cc with comparison ignition	8.89	6.64	7.71	4.56	6.1	X
87071000	Bodies for vehicles of hdg no 8703	0.24	0.05	2.22	2.4	2.98	B10
87082900	Other parts and accessories of bodies(incl cabs)	48.42	29.89	10.57	7.96	10.93	X
87083000	Mounted brake linings	24.85	23.24	27.68	20.4	23.98	X
87084000	Gear boxes	62.44	121.71	117.96	111.78	150.16	SPECIAL CASE
87085000	Drive axles with differential w/n provided with other transmission components	19.27	54.89	61.72	33.79	13.53	X
87088000	Suspension shock absorbers	17.52	6.59	3.24	3.09	3.83	X
87089100	Radiators	2.22	3.79	2.64	2.49	2.9	X
87089200	Silencers and exhaust pipes	0.57	1.67	6.54	7.29	6.28	B10
87089300	Clutches and parts thereof	1.18	2.31	3.09	7.07	2.49	X
87089400	Steering wheels, steering columns and steering boxes	21.23	29.89	37.76	29.22	31.55	X
87089500	Safety airbags with inflator system; parts thereof	3.32	4.21	4.85	3.96	4.41	X
87089900	Other parts and accessories of vehicles of hdg 8701-8705	171.32	256.95	241.91	248.64	259.96	X
87115000	Motor cycle etc with reciprocating internal combustion piston engine of cylinder capacity>800 cc	0.57	2.49	2.64	2.96	2.69	X
87141900	*Other parts & accessories of motor cycles (incl moped	27.54	25.82	22.34	18.05	9.84	X
87149990	Others	4.74	7.11	5.33	2.91	3.2	B10
Total of Top Imports Under the Chapter		462.68	627.73	576.1	521.1	546.99	
Total Imports under the Chapter		472.38	644.36	592.7	527.95	551.97	
Share of Top Imports to Total Imports		97.95	97.42	97.20	98.70	99.10	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2.17 gives the growth in imports under the Chapter in different tariff liberalisation categories. There is some increase in imports of products listed under B10 tariff liberalisation category, even though the value of imports is low. Imports of gear boxes have shown the maximum increase during the period. Even though the imports under the exclusion category have slightly declined, imports under this category have been of maximum value.

A number of large Japanese carmakers including Suzuki, Honda, etc. have manufacturing bases in India and each of these companies have different level of localisation for the finished products. Hence while some may be using a higher level of

Table A.2. 17: Growth in Imports of Products under Different Tariff Liberalisation Categories			
Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
B10	12.13	25.68	111.71
SPECIAL CASE	62.44	150.16	140.49
X	397.81	366.29	-7.92
N/A	--	9.84	NA
Total	472.38	551.97	16.85

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

imported inputs, others may be procuring it from domestic producers or producing it themselves. According to ACMA, imports of top 50 imported auto components parts[44] from Japan increased from US$ 985 million in 2010-11 to US$ 1391 million in 2014-15.

Chapter 90: Optical, photographic cinematographic measuring, checking precision, medical or surgical instruments and apparatus parts and accessories thereof

Imports of instruments from Japan increased steadily in the two years after the implementation of the CEPA from US$ 457 million in 2010-11 to US$ 618 million in 2012-13 and experienced a steady decline thereafter to US$ 544 million in 2014-15. India's global imports of these products have also exhibited the same trend though the imports have slightly recovered in 2014-15.

Tariffs on 25 tariff lines were eliminated in 2011 while tariffs on another 237 tariff lines under this Chapter would be eliminated by 2021 (Table A.2.18). The preferential tariff on these products was 4.51 per cent in 2015 while the MFN tariff stood at about 8.35 per cent. Further, 6 tariff lines were exempted from any tariff liberalisation.

India's major imports from Japan under this category are ophthalmic surgical instrument and appliances, chromatographs and electrophoresis instrument, other measuring and checking instruments, appliances and machines and other automatic regulating/controlling

Table A.2. 18: India's Tariff Reduction Commitments under HS Chapter 90					
Chapter	Description	A	B10	X	Total
90	Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. And apparatus parts and accessories thereof;	25 *9.33*	237 *88.43*	6 *2.24*	268 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

44 As defined by ACMA auto components include parts from various HS chapters and not only HS 87

Table A.2. 19: India's Top Imports from Japan under HS Chapter 90							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
9001	Optical fibre and optical fibre bundles etc; sheets and plats of polarising material; lenses; prisms, mirrors and other optical elements of any material	8.02	13.22	10.97	6.97	7.72	B10
9002	Prisms, mirrors and other optical elements, unmounted being parts or fittings for instruments/apparatus other than such elements of glass, not optical	8.72	18.6	22.92	17.11	17.5	B10
9010	Apparatus and equipment for photographic include cinematographic)laboratories n.e.s.in this chapter; negatoscopes projection screen	12.24	8.64	4.44	3.07	1.95	B10
9011	Compound optical microscopes, incl those for microphotography, microcenmtgrphy/ microprojection	10.59	15.03	14.95	12.12	17.16	B10
9012	Microscopes other than optical microscopes; diffraction apparatus	8.01	8.38	5.61	8.02	6.75	B10
9015	Surveying, hydro graphic, oceanographic, hydrological, meteorological/geophysical instruments and appliances, excl compass; range	7.09	9.39	11.49	7.72	4.73	B10[45]
9017	Drawing, marking-out/ mathematical calculating instruments; instruments for measuring length, for use in the hand (e.g. micrometres, callipers)n.e.s.in	12.98	20.43	17.29	18.35	16.19	B10
9018	Instruments and appliances used in medical, surgical, dental/veterinary scans, incl scntgraphic apparatus electro-medical apparatus and sight-testing ins	94.68	92.07	88.46	84.38	96.55	B10
9022	Other appliances of heading 9021 beta/ gamma radiations incl radiotherapy apparatus, x-ray tube and generators, high tension generators, scr	36.69	42.36	43.55	39.68	38.69	B10
9024	Machines and appliances for testing the hardness, strength, elasticity, compressibility etc of materials	9.2	7.43	8.36	9.08	6.94	B10
9026	Instruments and apparatus for measuring/ checking the flow, level, pressure/other variables of liquid/gases excl apparatus of hdg 9014,9015,9028/90	15.96	33.3	25.99	19.23	19.28	A
9027	Instruments and apparatus for physical or chemical analysis (for example, polarimeters, refractometers, spectr	73.96	92.63	107.99	110.17	118.65	A[46]

Table A.2.19 Continued...

45 Out of a total of 10 tariff lines, 9 are B10 and 1 is X.
46 Out of a total of 27 tariff lines, 23 are A and 4 are B10.

Table A.2.19 Continued...

Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
9029	Revolution counters, production counters, taximeters, milometer, pedometers and the like; speed indicators and tacho	5.02	10.74	9.3	7.63	6.82	B10[47]
9030	Osclscps and other instruments and apparatus for measuring checking electrical quantities, instruments and apparatus for measuring/detecting alpha, beta, gamma, x-ray etc	10.18	12.14	25.81	24.76	17.17	B10[48]
9031	Measuring or checking instruments, appliances and machines, not specified or included elsewhere in this	83.88	139.1	134.63	88.44	98.69	B10[49]
9032	Automatic regulating/controlling instruments and apparatus	32.01	54.65	46.93	59.36	45.67	B10
9033	Parts and accessories for machines, appliances, instruments/apparatus of chapter 90,nes	16.04	18.2	21.77	16.47	12.64	B10
Total of Top Imports Under the Chapter		445.27	596.31	600.46	532.56	533.1	
Total Imports under the Chapter		457.11	610.46	618.26	547.16	544.41	
Share of Top Imports to Total Imports		97.41	97.68	97.12	97.33	97.92	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

instruments and apparatus (Table A.2.19). It can be seen that imports of products under tariff liberalisation category A have shown some surge. Products under category B10 showed some surge in the initial years after the CEPA was implemented but their imports are subdued now (Table A.2.20).

Chapter 39: Plastic and articles thereof

Imports of plastics from Japan have increased steadily in the post CEPA implementation period, but for a dip in 2013-14, from US$ 279 million in 2010-11 to US$ 442 million in 2014-15. However, India's global imports of these products have shown a consistent rise during the entire period. It must be noted that out of a total of 411 tariff lines under this Chapter, only 4 were liberalised in 2011 (Table A.2.21). 183 tariff lines are to be phased out in 10 years with the last reduction taking place in 2021. However, a majority of 224 tariff lines in this chapter were under the X or the exclusion category. The MFN tariff on these tariff lines ranged between 7.5 to 10 per cent in 2015-16.

Imports of products which fall under the B10 category, such as polymers of ethylene in primary forms, Poly (vinyl chloride) resins, acrylic polymers in primary forms and other articles of plastics have increased steadily after the CEPA

47 Out of a total of 7 tariff lines, 4 are B10 and 3 are A.
48 Out of a total of 19 tariff lines, 17 are B10 and 2 are A.
49 Out of a total of 6 tariff lines, 5 are B10 and 1 is A.

Table A.2. 20: Growth in Imports of Products under Different Tariff Liberalisation Categoies			
Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
A	68.86	103.93	50.93
B10	387.64	440.01	13.51
X	0.61	0.40	-34.43
N/A	--	0.07	NA
Total	457.11	544.41	19.10

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 21: India's Tariff Reduction Commitments under HS Chapter 39					
Chapter	Description	A	B10	X	Total
39	Plastic and articles thereof.	4 *0.97*	183 *44.53*	224 *54.50*	411 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

implementation. Imports of products under the exclusion category have also shown some surge such as phenolic resins nes, plates, sheets, etc. of polymers etc,. (Table A.2.22)

The domestic industry had raised concerns regarding the imports of certain items from Japan and submitted complaints of dumping. However, either these investigations were withdrawn or they could not be proved during the investigation. Also, antidumping duties were imposed on the imports of Flexible Slabstock Polyol (under the HS code 390720, 390791, 390799) in September 2012 which was subsequently discontinued w.e.f. 13 January 2014 as the domestic industry withdrew their application for a review of the duty. Imports of Poly Vinyl Chloride Paste Resin were also subjected to antidumping investigation but Japan was eventually excluded from it since imports from Japan was less than 0.19 per cent of total imports and hence did not satisfy the "de-minimis" criteria.[50]

Looking at the growth in imports under the different categories of tariff liberalisation, imports under the B10 category have shown the maximum increase (Table A.2.23). While the total imports under the chapter showed an increase of 58 per cent from 2010-11 to 2014-15, imports under the B10 category which contributed about 79 per cent of the total imports under the Chapter in 2010-11, increased by more than 67 per cent and accounted for more than 83 per cent imports under this Chapter in 2014-15. Evidently as further tariff reductions come about on these items, imports could see a further rise.

50 3 per cent of the total imports, the investigations against Japan are to be terminated in terms of Rule 14(d) of the AD Rules.

Table A.2. 22: India's Top Imports from Japan under HS Chapter 39							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
3901	Polymers of ethylene in primary forms	21.0	24.65	34.13	31.95	38.52	B10
3902	Polymers of propylene or of other olefins, in primary forms	20.53	22.78	20.6	18.35	18.0	B10
3903	Polymers of styrene, in primary forms	7.67	7.01	5.04	4.33	6.03	B10[51]
3904	Polymers of vinyl chloride or of other halogenated olefins, in primary forms	27.56	34.15	55.3	55.22	90.62	B10[52]
3905	Polymers of vinyl acetate or of other vinyl esters, in primary forms; other vinyl polymers in primary forms	17.26	16.3	23.13	25.67	22.17	B10[53]
3906	Acrylic polymers in primary forms	24.94	25.53	34.88	26.4	38.34	B10[54]
3907	Polyacetals, other polyethers and epoxide resins,	24.49	38.6	31.81	25.92	28.15	B10[55]
3908	Polyamides in primary forms	4.71	5.05	8.19	8.46	10.71	B10[56]
3909	Amino-resins, phenolic resins and polyurethanes,	4.79	9.92	16.45	12.79	18.62	B10[57]
3910	Silicones in primary forms	11.35	11.32	9.22	7.54	8.48	B10
3911	Petroleum resins, coumarone-indene resins, polyterpenes, polysulphides, polysulphones and other products spe	4.51	5.23	6.49	6.58	8.6	B10
3912	Cellulose and its chemical derivatives, not elsewhere specified or included, in primary forms	11.07	13.55	18.58	21.03	24.84	B10
3917	Tubes, pipes and hoses, and fittings thereof (for example, joints, elbows, flanges), of plastics	7.09	10.17	13.23	9.49	8.19	B10[58]
3919	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls	20.42	28.08	31.05	19.54	26.67	B10[59]
3920	Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated, supported or	29.23	39.06	28.27	32.56	37.19	X[60]
3921	Other plates, sheets, film, foil and strip, of plastics	8.68	5.47	5.03	6.55	7.23	X[61]

Table A.2.22 Continued...

51 Out of a total of 8 tariff lines, 7 are B10 and 1 is X.
52 Out of a total of 15 tariff lines, 13 are B10 and 2 are X.
53 Out of a total of 12 tariff lines, 11 are B10 and 1 is X.
54 Out of a total of 6 tariff lines, 5 are B10 and 1 is A.
55 Out of a total of 20 tariff lines, 15 are B10, 3 are X and 2 are A.
56 Out of a total of 5 tariff lines, 4 are B10 and 1 is A.
57 Out of a total of 14 tariff lines, 12 are B10 and 2 are X.
58 Out of a total of 22 tariff lines, 20 are B10 and 2 are X.
59 Out of a total of 4 tariff lines, 2 are B10 and 2 are X.
60 Out of a total of 103 tariff lines, 82 are X and 21 are B10.
61 Out of a total of 28 tariff lines, 26 are X and 2 are B10.

Table A.2.22 Continued...

Product	Description	Imports from Japan in US$ million					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
3923	Articles for the cnvynce/packing of goods stoppers lids caps and other closers of plastics	2.49	2.1	8.36	12.8	8.44	X
3926	Other articles of plastics and articles of other materials of headings 3901 to 3914	29.81	42.83	47.48	37.17	38.07	X[62]
Total of Top Imports Under the Chapter		277.6	341.8	397.24	362.35	438.87	
Total Imports under the Chapter		279.86	346.35	400.84	367.38	442.61	
Share of Top Imports to Total Imports		99.19	98.69	99.1	98.63	99.16	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 23: Growth in Imports of Products under Different Tariff Liberalisation Categories

Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
A	7.43	8.65	16.42
B10	222.35	371.49	67.07
X	50.08	62.47	24.74
Total	279.86	442.61	58.15

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Chapter 29: Organic chemicals

Imports of organic chemicals from Japan declined in the period after the CEPA implementation from US$ 424 million in 2010-11 to US$ 373 million in 2012-13 after which the imports have started to increase reaching US$ 413 million in 2014-15, a level still lower than the pre CEPA period. Tariffs on a total of 605 tariff lines under this Chapter will be eliminated by 2021 while the rest 194 tariff lines are exempted from any tariff liberalisation (see Table A.2.24).

Despite a slowdown in the overall imports under this Chapter, imports of some of the products such as other saturated monohydric alcohols, butanols, esters of methacrylic acid, methacrylic acid have shown some increase (Table A.2.25). These products, however, do not enjoy preferential

Table A.2. 24: India's Tariff Reduction Commitments under HS Chapter 29

Chapter	Description	B10	X	Total
29	Organic chemicals	605 *75.72*	194 *24.28*	799 *100.00*

Source: Calculated using India-Japan CEPA, Legal text
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

62 Out of a total of 45 tariff lines, 29 are X and 16 are B10.

Table A.2. 25: India's Top Imports from Japan under HS Chapter 29							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
2902	Cyclic hydrocarbons	7.0	20.0	9.01	15.02	6.29	B10[63]
2903	Halogenated derivatives of hydrocarbons	111.0	67.54	72.33	61.22	67.97	B10[64]
2905	Acyclic alcohols and their halogenated, sulphonated, nitrated or nitrosated derivatives	12.68	16.32	15.64	21.47	21.3	X[65]
2906	Cyclic alcohols and their halogenated, sulphonated, nitrated or nitrosated derivatives	4.36	3.71	4.62	2.83	3.5	B10[66]
2907	Phenols; phenol-alcohols	30.35	27.16	20.31	25.33	26.89	B10[67]
2910	Epoxides, epoxyalcohols, epoxyphenols and expoxyethers, with a three-membered ring, and their halogenated, sulphonated,	0.5	0.66	1.92	2.26	3.56	B10[68]
2912	Aldihydes, w/n with other oxygen function; cyclic polymers of aldehydes; paraformaldehyde	15.05	12.83	13.16	17.26	18.67	B10[69]
2914	Ktns and quinones, w/n with other oxygen function, their halogenated sulphonated nitrtd/ nitrstd derivatives	3.39	14.65	15.46	16.17	15.65	B10[70]
2915	Saturated acyclic monocarboxylic acids and their anhydrites, halides, peroxids and peroxy acids; their halogntd slphntd nitrtd/nitrstd d	9.1	7.36	6.6	11.58	6.82	B10[71]
2916	Unsaturated acyclic monocarboxylic acids, cyclic monocarboxylic acids, their anhydrides, halides, peroxides and	23.2	24.19	15.41	18.93	29.6	X[72]
2917	Polycarboxylic acids, their anhydrides, halides, peroxides andperoxyacds, other halogenated slphntd nitrated or nitrosated derivatives	7.25	8.37	12.19	13.42	5.25	X[73]
2918	Carboxylc acids with additional oxygen function anhydrides halides peroxides and peroxy acids their halogenated sulphntd nitrated/nitrstd	9.71	2.2	1.55	1.79	2.11	B10[74]
2921	Amine- function compounds	28.06	18.72	15.21	14.64	20.1	B10
2922	Oxygen-function amino-compounds	12.17	12.02	13.59	17.28	11.4	B10
2924	Carboxyamide-function compounds amide-function compounds of carbonic acid	10.49	6.63	6.07	4.54	3.25	B10
2926	Nitrile-function compounds	11.49	13.47	13.03	10.06	8.39	B10

Table A.2.25 Continued...

63 Out of a total of 17 tariff lines, 16 are B10 and 1 is X.
64 Out of a total of 59 tariff lines, 50 are B10 and 9 are X.
65 Out of a total of 43 tariff lines, 19 are X and 14 are B10.
66 Out of a total of 10 tariff lines, 9 are B10 and 1 is X.
67 Out of a total of 20 tariff lines, 10 are B10 and 10 are X.
68 Out of a total of 5 tariff lines, 3 are B10 and 2 are X.
69 Out of a total of 20 tariff lines, 16 are B10 and 4 are X.
70 Out of a total of 28 tariff lines, 14 are B10 and 14 are B10.
71 Out of a total of 37 tariff lines, 21 are B10 and 16 are X.
72 Out of a total of 33 tariff lines, 27 are X and 6 are B10.
73 Out of a total of 30 tariff lines, 16 are X and 14 are B10.
74 Out of a total of 39 tariff lines, 23 are B10 and 16 are X.

Table A.2.25 Continued...

Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
2929	Compounds with other nitrogen function	41.58	33.45	58.26	59.8	74.24	B10
2930	Organo-sulphur compounds	18.57	23.56	22.21	24.21	23.21	X[75]
2932	Heterocyclic compounds with oxygen htr-atom(s) only	9.41	10.74	5.84	3.23	3.93	B10
2933	Heterocyclic compounds with nitrogen	13.76	14.17	17.11	18.22	22.13	B10[76]
2934	Mucieic acids and their salts w/n chemically defined , other	0.37	2.23	2.03	5.26	9.67	B10
2942	Other organic compounds	28.68	25.49	20.46	11.12	11.59	B10
Total of Top Imports Under the Chapter		408.17	365.47	362.01	375.64	395.52	
Total Imports under the Chapter		424.81	381.18	373.02	388.59	413.34	
Share of Top Imports to Total Imports		96.08	95.88	97.05	96.67	95.69	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 26: Growth in Imports of Products under Different Tariff Liberalisation Categories

Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
B10	364.99	319.28	-12.52
X	59.05	73.34	24.20
N/A	0.77	20.72	2590.91
Total	424.81	413.34	-2.70

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

tariff treatment. Imports of some of the products under B10 category have also increased such as of toluene diisocyanate, other isocyanates and Methionine. On the other hand, import of vinyl chloride has declined significantly during the period. The MFN tariff on this product (5 per cent) is however only slightly higher than the preferential tariff (4.1 per cent) on this product in 2015-16.

Acting on the complaints made by certain producers, the Government of India has also imposed antidumping duties on some of the products listed under the chapter such as acetone, melamine and phenol.[77] Correspondingly, there has been some decline in imports of these items. More recently, antidumping investigations have also been started against imports of phthalic anhydride from Japan.

75 Out of a total of 14 tariff lines, 11 are X and 3 are B10.
76 Out of a total of 51 tariff lines, 50 are B10 and 1 is X.
77 A list of items on which antidumping duties are imposed is given in the Appendix to this annexure.

Chapter 73: Articles of iron or steel

Imports of articles of iron and steel from Japan increased in the period just after the CEPA implementation from US$ 315 million in 2010-11 to US$ 453 million in 2011-12 but showed a steady decline thereafter to US$ 397 million in 2014-15. India's global imports of these products also showed a similar trend in the same period, although they picked up in 2014-15. India agreed to liberalise tariffs on 256 tariff lines over the longer phaseout period of 10 years (see Table A.2.27). However, preferential tariff on these products stood at 5.5 per cent in 2015-16 compared to the MFN tariff of 10 per cent.

Also, 4 tariff lines under this Chapter were exempted from any tariff liberalisation. These related to two tariff lines under screws, nuts and bolts and another two relating to Springs and leaves for springs. The applied MFN tariff on these products for 2015-16 was 10 per cent. However, despite figuring in the exclusion list, import of these products was on the rise (Table A.2.28). More specifically, imports of Other screws and bolts (HS 73182990), Other non-threaded articles (HS 73182990) and other springs of iron/steel (HS 73209090) increased in the period after the CEPA implementation. On the other hand, certain items under the B10 category have also shown some rise like imports of railways rails, drill pipes of iron, other seamless tubes/pipes and hollow profiles, Threaded nuts and other articles of iron/steel not specified elsewhere (Table A.2.29).

Chapter 98: Project goods; some special uses.

Imports of project goods from Japan increased substantially from US$ 243 million in 2010-11 to US$ 627 million in 2011-12. However, the imports dipped significantly to US$ 140 million by 2013-14.

Table A.2. 27: India's Tariff Reduction Commitments under HS Chapter 73

Chapter	Description	B10	X	Total
73	Articles of iron or steel	256 *98.46*	4 *1.54*	260 *100.00*

Source: Calculated using India-Japan CEPA, Legal text
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Table A.2. 28: India's Imports of Product under Exclusion Category from Japan under HS Chapter 73

Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
73181500	Other screws and bolts w/n with nuts or washers threaded	29.39	44.7	48.4	55.7	48.25	X
73182990	Other non-threaded articles n.e.s.	22.76	41.15	45.42	40.22	31.72	X
73201011	Leaf spring for motor vehicles	2.97	2.6	2.63	2.27	1.96	X
73209090	Others of other springs of iron/steel	6.84	9.79	9.26	9.0	10.93	X

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 29: India's Top Imports from Japan under HS Chapter 73							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
7302	Railway and tramway track construction material of iron or steel, e.g. rails, rack rails etc switch blades sleepers, ties and other material for fixing	0.04	0.07	2.33	1.11	15.71	B10
7304	Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel	129.49	176.78	72.39	95.12	107.55	B10
7305	Other tubes and pipes,(e.g. welded, riveted etc) having circular cross section, the external diameter of which exceeds 406.4mm, of iron/steel	4.6	2.61	1.27	1.35	0.18	B10
7306	Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel	17.35	20.92	31.75	28.97	20.88	B10
7307	Tube or pipe fittings (for example, couplings, elbow sleeves), of iron or steel	7.16	9.5	9.31	7.09	10.27	B10
7312	Stranded wire, ropes, cables, plaited bands, slings and the like, of iron or steel, not electrically	4.43	6.56	7.77	1.89	0.74	B10
7315	Chain and parts thereof, of iron or steel	8.29	7.57	6.72	5.76	4.83	B10
7318	Screws, bolts, nuts, coaches screws, screw hooks rivets, cotters, cotter-pins, washers(incl spring washers)and similar articles of iron	73.51	122.2	156.41	143.27	123.79	B10[78]
7319	Sewing, knitting needles, bodkins, crochet books etc. and similar articles for use in hand, of iron/ steel; safety pins and other pins nes	3.81	4.93	5.75	5.04	5.95	B10
7320	Springs and leaves for springs, of iron or steel	12.59	14.72	14.36	14.05	14.97	B10[79]
7325	Other cast articles of iron or steel	3.15	9.2	18.17	20.04	11.58	B10
7326	Other articles of iron or steel	46.44	68.94	93.32	83.4	70.76	B10
Total of Top Imports Under the Chapter		310.86	444.0	419.55	407.09	387.21	
Total Imports under the Chapter		315.88	453.06	437.62	416.75	397.14	
Share of Top Imports to Total Imports		98.41	98.00	95.87	97.68	97.50	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

There has been a slight recovery in 2014-15 with imports worth US$ 285 million in 2014-15. Tariffs on all the 8 tariff lines covered under this Chapter are to be eliminated by 2021. The tariffs on these products were 4.1 per cent in 2015 while the MFN tariff on these products was 7.5 per cent.

India's major imports from Japan under this chapter are Industrial plant project and power project (Table A.2.30) and many of these projects are presumably covered under the bilateral development cooperation programmes between India and Japan. The imports of these products surged sharply in

78 Out of a total of 14 tariff lines, 12 are B10 and 2 are X.
79 Out of a total of 8 tariff lines, 6 are B10 and 2 are X.

Table A.2. 30: India's Top Imports from Japan under HS Chapter 98							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
98010011	Industrial plant project	93.21	251.84	179.44	21.44	97.28	B10
98010013	Power project	64.38	271.99	150.26	103.33	178.95	B10
98010014	Mining project	2.38	14.97	3.03	3.22	2.11	B10
98010015	Project for exploration of oil or other materials		4.89				B10
98010019	Other projects	78.58	69.68	49.98	12.38	7.22	B10
98010020	Components w/n finished or raw materials for initial setting up/ substantial expansion of unit	4.77	12.2	1.89			B10
98010030	Spare parts and raw materials for maintenance		1.26		0.53		B10
Total of Top Imports Under the Chapter		243.32	626.83	384.6	140.9	285.56	
Total Imports under the Chapter		243.54	627.19	385.48	143.76	287.13	
Share of Top Imports to Total Imports		99.91	99.94	99.77	98.01	99.45	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

the first year of CEPA implementation but have declined thereafter. However, the level of imports of power projects is considerably higher than the pre CEPA level. On the other hand, imports of other projects have followed an unsteady pattern.

Chapter 40: Rubber and articles thereof

Imports of rubber and rubber articles from Japan showed a considerable surge in the couple of years after the CEPA implementation increasing from US$ 244 million in 2010-11 to US$ 341 million in 2012-13. They, however, declined to US$ 262 million by 2014-15. Out of a total of 174 tariff lines, tariff on only one line relating to Ethylene-propylene-non-conjugated diene rubber (EPDM) was eliminated in 2011 and its imports have shown an increase in percentage terms. Tariffs on 132 tariff lines will be gradually reduced to zero with the last set of reductions in 2021 (Table A.2.31). The MFN applied tariff on these products is about 9.73 per cent while the preferential tariff under the CEPA is 5.47 per cent in 2015-16. Further, 41 tariff lines with an average applied MFN tariff of about 14.63 per cent are exempted from any tariff liberalisation.

Table A.2. 31: India's Tariff Reduction Commitments under HS Chapter 40					
Chapter	Description	A	B10	X	Total
40	Rubber and articles thereof.	1 *0.57*	132 *75.86*	41 *23.56*	174 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Table A.2. 32: India's Top Imports from Japan under HS Chapter 40							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
4002	Synthetic rubber and factice derived form oils, in primary forms or in plates, sheets or strip; mixtures of any pro	93.27	139.18	140.83	112.12	103.88	B10[80]
4009	Tubes, pipes and hoses, of vulcanised rubber other than hard rubber, with or without their fittings (for example,	14.3	26.76	29.85	24.7	24.3	B10 [81]
4010	Conveyor transmission belts/belting of vulcanised rubber	12.03	12.66	12.8	9.34	9.17	B10[82]
4011	New pneumatic tyres, of rubber	58.37	70.59	68.34	58.31	58.53	B10[83]
4016	Other articles of vulcanised rubber other than hard rubber	62	77.28	84.87	63.68	60.79	B10[84]
Total of Top Imports Under the Chapter		239.97	326.47	336.69	268.15	256.67	
Total Imports under the Chapter		244.79	331.94	341.51	272.85	262.6	
Share of Top Imports to Total Imports		98.03	98.35	98.59	98.28	97.74	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

India's major imports from Japan under this Chapter are chloroprene (chlorobutadiene) rubber (CR), ethylene-propylene-non-conjugated, other articles of vulcanised rubber excluding mats/gaskets and other inflatable articles and tubes and pipes of vulcanised products (Table A.2.32). The imports of these products have shown some surge in the period after CEPA implementation. On the other hand, imports of products such as butadiene rubber, other tyres used on motor cars and other pneumatic tyres of rubber have shown return to 2010-11 levels after some increases in the intervening years.

Chapter 38: Miscellaneous chemical products

Imports of miscellaneous chemical products from Japan increased substantially from US$ 156 million in 2010-11 to US$ 199 million in 2012-13 and experienced a decline thereafter to reach US$ 178 million in 2013-14. However, the imports have picked up in 2014-15 to reach US$ 187 million in 2014-15. India's global imports of these products have, however, continued to rise during the entire period.

In terms of tariff liberalisation under CEPA, tariffs on only 2 tariff lines under

80 Out of a total of 21 tariff lines, 19 are B10, 1 is X and 1 is A.
81 Out of a total of 8 tariff lines, 4 are B10 and 4 are X.
82 Out of a total of 24 tariff lines, 20 are B10 and 4 are X.
83 Out of a total of 18 tariff lines, 9 are B10 and 9 are X.
84 Out of a total of 22 tariff lines, 21 are B10 and 1 is X.

Table A.2. 33: Growth in Imports of Products under Different Tariff Liberalisation Categories			
Tariff Category	Imports in 2010-11 (in US$ million)	Imports in 2014-15 (in US$ million)	Percentage Increase
A	8.56	20.09	134.70
B10	186.13	179.27	-3.69
X	50.10	63.24	26.23
Total	244.79	262.60	7.28

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India

Table A.2. 34: India's Tariff Reduction Commitments under HS Chapter 38					
Chapter	Description	A	B10	X	Total
38	Miscellaneous chemical products.	2 *1.14*	146 *82.95*	28 *15.91*	176 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

the chapter were eliminated in 2011 (Table A.2.34). For a majority of 146 tariff lines, however, tariffs would be liberalised by 2021. The average preferential tariff on these products is about 4.49 per cent while the applied MFN tariff for 2015-16 is about 8.69 per cent. Also, for a total of 28 tariff lines with an average applied MFN tariff of 10.625 per cent, no tariff concessions were given.

It is interesting to note that despite this, India's leading import from Japan under this Chapter is 'other insecticide' which is under the exclusion category (Table A.2.35). The imports of this product have increased from US$ 22 million in 2010-11 to US$ 33 million in 2014-15. The MFN tariff on this product is 10 per cent. Further, imports of other herbicides-anti-sprouting products have also increased sharply from US$ 2.86 million in 2010-11 to US$ 28.99 million in 2014-15. The applied MFN tariff on this product in 2015-16 (10 per cent) is considerably higher than the preferential tariff (4.1 per cent). other important import items under this Chapter which are exhibiting some surge are platinum/ palladium catalyst base of activated carbon, other chemical products, rubber chemicals, refractory cement-cortars-concrete and additives for lubricating oils.

Chapter 27: Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes

India's imports of mineral fuels from Japan increased substantially from US$ 143 million in 2010-11 to US$ 347 million in 2011-12 but experienced a steady decline thereafter to US$ 159 million in 2014-15. India's tariff reduction commitment under this Chapter is spread across four categories (Table A.2.36). Tariffs on 3 tariff lines relating to aromatic hydrocarbon, petroleum bitumen and electrical energy were eliminated immediately on the date that the agreement came into force. Tariffs on 2 tariff lines relating to Jute batching oil and textile oil and lubricating oil will be reduced by 2018. The preferential tariff on these products is 3.8 per cent while the MFN applied tariff is 5 per cent (for 2015-16). A majority of 58 tariff lines under this Chapter

Table A.2. 35: India's Top Imports from Japan under HS Chapter 38							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
38011000	Artificial graphite	1.13	1.74	1.39	1.59	1.39	B10
38019000	Other (graphite based preparations)	0.58	2.85	8.74	1.59	1.21	B10
38021000	Activated carbon	0.89	1.14	1.66	2.85	2.32	B10
38061090	Other rosin and resin acids	1.51	6.2	6.42	4.05	0.11	B10
38089199	Other insecticide nes	22.28	18.73	13.4	27.28	33.21	X
38089290	Others fungicide nes	1.8	2.79	1.85	2.26	2.77	B10
38089390	Other herbicides-anti-sprouting products	2.86	2.66	6.29	19.43	28.99	B10
38089990	Other similar products n.e.s.	27.15	38.7	36.08	36.66	19.14	B10
38099190	Other finish agents used in textile industry	3.53	2.56	0.75	1.07	1.78	B10
38101010	Pickling preparation and other soldering brazing or welding powder/pastes etc	0.65	0.73	0.66	0.96	1.1	B10
38109090	Other	1.12	1.89	1.37	1.43	1.19	B10
38112100	Additives for lubricating oils containing oils obtained from petroleum and bituminous minerals	0.81	1.09	1.87	2.22	3.49	B10
38112900	Other additives for lubricating oils	1.31	1.74	1.35	1.31	1.01	B10
38119000	Other prepared additives anti-corrosive preparations and other prepared additives	1.08	1.35	1.47	1.77	1.84	B10
38121000	Prepared rubber accelerators	1.15	1.25	1.51	1.4	1.13	B10
38123090	Rubber chemical-n.e.s.(e.g. blowing agent)	3.56	4.65	6.66	5.37	8.36	B10
38140010	Organic composite solvents and thinners nes	1.59	1.87	2	2.16	1.49	B10
38151100	Supported catalysts with nickel/nickel compounds	0.22	0.17	0.19	2.1	2.17	B10
38151210	Platinum/paldm catalyst/a base of activated carbon	5.69	9.08	10.17	2.96	19.19	B10
38151290	Others	8.35	12.9	11.02	3.46	0.79	B10
38151900	Other supported catalysts	5.02	6.26	6.25	3.95	1.16	B10
38159000	Other reaction initiators etc	11.88	14.64	35.77	14.8	11.99	B10
38160000	Refractory cement-cortars-concretes and similar compositions other than products of hdg no. 3801	6.27	10.48	13.86	11.24	8.52	B10
38190090	Others	0.94	1.68	2.41	2.01	3.15	B10
38220090	Others	6.66	7.23	7.83	6.54	8.12	B10
38249017	Surface tension reducing agents	0.03	0.03	0.03	0.27	1.29	B10
38249090	Other chemical products nes.	10.61	10.8	10.54	8.8	12.36	B10
Total of Top Imports Under the Chapter		128.67	165.22	191.54	169.53	179.27	
Total Imports under the Chapter		156.43	182.11	199.06	178	187.77	
Share of Top Imports to Total Imports		82.25	90.73	96.22	95.24	95.47	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 36: India's Tariff Reduction Commitments under HS Chapter 27						
Chapter	Description	A	B7	B10	X	Total
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	3 *4.05*	2 *2.70*	58 *78.38*	11 *14.86*	74 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

will, however, be fully liberalised by 2021. However, for some of the products under this chapter such as Coking coal, petroleum oils, high speed diesel etc., the preferential tariff is higher than the MFN applied tariff in 2015-16.

India's imports under this Chapter have fluctuated widely. However, India's major import items are other cokes of coal and petroleum coke calcined (Table A.2.37). It must be noted that imports of high speed diesel (HSD) have declined considerably from US$ 93 million in 2010-11 to US$ 2.74 million in 2014-15 corresponding to the overall decline in India's global imports of this commodity.

Chapter 74: Copper and articles thereof

Imports of Copper articles increased from US$ 28.74 million in 2010-11 to US$ 130.39 million in 2014-15 with bulk of the increase taking place in the last year. Out of a total of 95 tariff lines in the Chapter, tariffs on

Table A.2. 37: India's Top Imports from Japan under HS Chapter 27							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
27040030	Hard coke of coal	5.09		7.87			B10
27040090	Other cokes of coal	23.99	179.85	258.95	159.79	83.5	B10
27073000	Xylole (xylenes)	2.65					B10
27074000	Naphthalene	2.15	0.91	1.41	2.69	2.76	B10
27082000	Pitch coke	0.54		0.44	7.7	5.97	B10
27101930	High speed diesel (HSD)	93.31	75.56	2.56	0.16	2.74	B10
27101960	Base oil	3.48	9.15	1.01	2.45	2.15	B10
27101980	Lubricating oil	2.5	3.99	6.45	8.4	8.77	B7
27101990	Other petroleum oils and oils obtained from bituminous minerals n.e.s	2.09	1.49	1.05	1.42	2.91	X
27111100	Liquefied natural gas		45.68				B10
27131200	Petroleum coke calcined	3.14	23.75	19.23	58.83	45.86	B10
Total of Top Imports Under the Chapter		138.94	340.38	298.97	241.44	154.66	
Total Imports under the Chapter		143.3	347.22	304.55	250.35	159.37	
Share of Top Imports to Total Imports		96.96	98.03	98.17	96.44	97.04	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 38: India's Tariff Reduction Commitments under HS Chapter 74					
Chapter	Description	B5	B10	X	Total
74	Copper and articles thereof.	19 *20.00*	75 *78.95*	1 *1.05*	95 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

19 tariff lines would be eliminated by 2016 (Table A.2.38). The preferential tariff on these products is quiet low at 0.8 per cent in 2015-16 compared to a MFN tariff of 5.13 per cent. Further, tariffs on 75 tariff lines will be eliminated gradually by 2021. Tariffs on these have already been reduced up to about 3.81 per cent while the MFN tariff is about 6.69 per cent.

Imports under this Chapter show a sharp increase in 2014-15 with imports of copper cathodes, bars and rods of brass and copper wires showing substantial increases in 2014-15 (Table A.2.39). India's major imports from Japan under this Chapter are cathodes and sections of cathodes of refined copper, other bars and rods of brass and other copper wire. Most significant to

Table A.2. 39: India's Top Imports from Japan under HS Chapter 74							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
74031100	Cathodes and sections of cathodes of refined copper	0.09	1.63		0.83	17.87	B10
74031300	Billets of refined copper	2.15	2.57	2.85	2.84	3.12	B10
74071020	Copper rods other than electrolytic, wrought	2.22	2.06	2.11	2.13	2.79	B5
74072190	Other bars and rods of brass	0.73	6.02	12.24	11.46	10.47	B5
74081190	Other copper wire with max cross-sec diameter>6mm	0.57	0.7	0.05	7.6	64.82	B10
74082110	Wire of copper-zinc base alloys(brass) cross-sectional dimension exceeds 6mm	0.71	7.26	3.55	0.19	0.09	B5
74082190	Wire of copper-zinc base alloys(brass) cross-sectional dimension <= 6mm	3.8	0.16	2.73	11.02	9.57	B5
74091100	Plates, sheets etc of refined copper in coils	0.11	0.13	0.69	1	1.47	B5
74092100	Plates sheets and strip of copper-zinc base alloys(brass)in coils	0.1	0.08	0.22	1.45	1.76	B5
74099000	Plates, sheets etc. of other copper alloys	1.77	2.44	2.34	1.83	2.08	B5
74112900	Tubes and pipes of other copper alloys	1.89	2.35	2.26	3.12	0.92	B10
74199990	Others	7.24	7.1	5.57	5.4	7.86	B10
Total of Top Imports Under the Chapter		21.38	32.5	34.61	48.87	122.82	
Total Imports under the Chapter		28.74	44.28	45.6	58.67	130.39	
Share of Top Imports to Total Imports		74.39	73.40	75.90	83.30	94.19	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

note is that the imports of copper wires have increased substantially from US$ 0.57 million in 2010-11 to US$ 64.82 million in 2014-15. The MFN tariff on this product is 5 per cent while the preferential tariff is 2.7 per cent.

The domestic industry has raised concerns about the surge in cheaper imports from Japan and other ASEAN countries, blaming the FTAs for the surge in imports.[85] Further, the domestic producers feel that with the depreciation in yen, Japanese exports are becoming more cost competitive which is affecting the Indian companies. In communications to the government, the copper producers have demanded an immediate increase in import duties on refined copper products from the current 5 per cent to 7.5 per cent and the scrapping of the 2.5 per cent import duty on raw copper concentrate which is being imported to make refined copper products.[86] It may, however, be mentioned that imports of copper wire (HS 74081190) were more subdued in 2015-16 amounting to US$ 11.12 million for the period April to November 2015.

Table A.2. 40: India's Top Imports from Japan under HS Chapter 82

Product	Description	Imports from Japan (in US$ million)				
		2010-11	2011-12	2012-13	2013-14	2014-15
8202	Hand saws; blades for saws of all kinds (including slitting slotting or toothless saw blades	6.19	9.11	7.00	5.60	7.53
8203	Files, rasps, pliers (including cutting pliers), pincers, tweezers, metal cutting shears, pipe-cutters, bolt croppers	1.13	1.22	0.53	1.16	1.61
8205	Hand tools(including glaziers 'diamonds) n.e.s. blow lamps; vices, clamps, other than accessories and parts of machine tools; anvils; portable forging	1.86	3.35	2.54	2.91	5.82
8207	Interchangeable tools for hand tools	77.50	107.85	101.78	104.62	87.60
8208	Knives and cutting blades, for machines or for mechanical appliances	2.76	4.49	5.71	8.12	2.28
8209	Plates, sticks, tips and like for tools,	7.16	13.21	12.55	14.33	18.75
Total of Top Imports Under the Chapter		96.60	139.23	130.11	136.74	123.59
Total Imports under the Chapter		100.75	144.15	135.01	143.04	127.17
Share of Top Imports to Total Imports		95.88	96.59	96.37	95.60	97.18

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

85 http://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/as-cheaper-imports-increases-copper-industry-sends-sos-to-government/articleshow/49344924.cms

86 http://www.miningweekly.com/article/indias-copper-majors-rally-against-ftas-2015-11-03

Chapter 82: Tools implements, cutlery, spoons and forks, of base metal; parts thereof of base metal

India's imports of tools and implements from Japan increased from US$ 100 million in 2010-11 to US$ 143 million in 2013-14 and declined to US$ 127 million in 2014-15. Incidentally all the tariff lines in this Chapter are to be liberalised by 2021. The MFN tariff on these items in 2015-16 is 10 per cent while the preferential tariff is 5.5 per cent.

India's major imports under this Chapter are interchangeable tools for hand tools and plates, sticks, tips and like for tools (Table A.2.40). Imports of interchangeable hand tools form the bulk of imports under this Chapter. They increased from US$ 77 million in 2010-11 to US$ 104.62 million in 2013-14, though it has come down in 2014-15. Imports of plates, stick and tips has increased steadily from US$ 7.16 million in 2010-11 to US$ 18.75 million in 2014-15.

Chapter 54: Man-made filaments

Imports of Man-Made filaments from Japan increased steadily from US$ 59.81 million in 2010-11 to US$ 82.66 million in 2014-15. Tariffs on 202 tariff lines under this Chapter were eliminated on 1 August 2011 (Table A.2.41). The MFN tariff on these products was 10 per cent in 2015. Tariffs on the remaining 41 tariff lines will be eliminated by 2021. The MFN tariff on these items is about 10 per cent but CEPA preferential tariff is 5.5 per cent.

India's major imports from Japan under this Chapter are Artificial filament yarns, whose imports have shown a steady

Table A.2. 41: India's Tariff Reduction Commitments under HS Chapter 54

Chapter	Description	A	B10	Total
54	Man-made filaments.	202 *83.13*	41 *16.87*	243 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Table A.2. 42: India's top imports from Japan under HS Chapter 54

Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
5402	Synthetic filament yarn(other than sewing thread) not put up for retail sale incl synthetic monofilament of less than 67 decitex	4.00	5.80	6.67	7.10	9.29	B10
5403	Artificial filament yarn(excl sewing thread), not put up for retail sale, incl artificial monofilament of < 67 deci	53.44	54.65	67.80	68.63	71.35	A
Total of Top Imports Under the Chapter		57.44	60.45	74.47	75.73	80.64	
Total Imports under the Chapter		59.81	63.94	76.47	77.88	82.66	
Share of Top Imports to Total Imports		96.04	94.54	97.38	97.24	97.56	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

rise from US$ 53 million in 2010-11 to US$ 71 million in 2014-15 (Table A.2.42). The tariff on this product was eliminated in 2011. There is also some rise in imports of synthetic filament yarn from US$ 4 million in 2010-11 to US$ 9.29 million in 2014-15.

Chapter 28: Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, or radioactive elements or of isotopes

Imports of inorganic chemicals from Japan increased from US$ 70 million in 2010-11 to US$ 113 million in 2011-12 but declined steadily thereafter to US$ 79.37 million in 2014-15, mirroring a trend similar to India's global imports of these products.

Tariffs on 322 tariff lines are set to be eliminated by 2021 (Table A.2.43). As of 2015-16, the tariffs on these products have been reduced to 3.96 per cent as opposed to the MFN tariff of about 7.84 per cent. On the other hand, 5 tariff lines have been exempted from tariff liberalisation.

India's major imports under this Chapter are iodine, sulphuric acid, Hydrazine hydrate and Hydroxylamine sulphate (Table A.2.44). The imports of these items showed some surge in 2011-12 but have been declining thereafter. However, imports of carbon black which falls under the exclusion category has steadily climbed up from US$ 1.55 million in 2010-11 to US$ 4.25 million in 2014-15.

Chapter 34: Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations

Imports of soaps and other washing preparations from Japan increased steadily in the period after the CEPA implementation from US$ 58 million in 2010-11 to US$ 73.7 million in 2014-15.

Out of a total of 59 tariff lines in the Chapter, tariffs on 51 will be eliminated by 2021 (Table A.2.45). The preferential tariff on these products was about 4.1 per cent in 2015 compared to a MFN tariff of about 9.80 per cent. The rest of the 8 tariff lines were exempted from any tariff liberalisation and the MFN tariffs on them were about 10 per cent in 2015.

India's major imports from Japan under this Chapter are preparations for the treatment of textile materials, leather fur skins or other materials, and the imports of these items have shown a steady increase in the period after the CEPA implementation (Table A.2.46).

Table A.2. 43: India's Tariff Reduction Commitments under HS Chapter 28

Chapter	Description	B10	X	Total
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, or radioactive Elements Or of isotopes.	322 *98.47*	5 *1.53*	327 *100.00*

Source: Calculated using India-Japan CEPA, Legal text
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Table A.2. 44: India's Top Imports from Japan under HS Chapter 28							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
28012000	Iodine	10.59	16.34	17.62	12.36	10.78	B10
28030010	Carbon blacks	1.55	2.31	3.14	3.65	4.25	X
28049000	Selenium	5.25	8.75	8.79	5.81	4.45	B10
28054000	Mercury	0.43	2.93	2.65	3.08	1.74	B10
28070010	Sulphuric acid	14.42	38.55	34.57	12.26	14.21	B10
28112200	Silicon dioxide	1.15	2.58	1.22	2.25	2.34	B10
28151200	Naoh in aqueous solution (soda lye or liquid soda)	6.35	3.11		14.67		B10
28211010	Iron oxides	2.15	1.07	1.11	0.8	1.06	B10
28230010	Titanium dioxide	2.92	3.63	3.6	3.48	3.8	B10
28251020	Hydrazine hydrate	1.7	3.23	7.9	9.07	7.89	B10
28251040	Hydroxylamine sulphate	2.28	2.03	3.39	4.2	5.27	B10
28256020	Zirconium dioxides	1.8	3.41	1.41	1.33	1.95	B10
28259090	Other inorganic bases metal oxides hydroxides and peroxides	0.67	0.86	0.79	2.52	2.0	B10
28371100	Cyanides and cyanide oxide of sodium	0.03	0.81	1.37	2.75	1.83	B10
28416900	Manganites, manganates and permanganates (other than potassium permanganates)	1.01	0.94	1.23	1.37	1.27	B10
28439012	Noble metal solutions of platinum, rhodium and palladium	2.78	3.53	1.2	1.95	0.1	B10
28461090	Other cerium compounds	0.81	2.28	1.3	0.4	0.55	B10
28469010	Rare earth oxides nes		0.35	0.01	1.9	0.01	B10
28469090	Other compounds inorganic/ organic of rare earth materials	0.89	1.3	0.24	0.7	0.57	B10
28530099	Other inorganic compounds, nes	0.74	0.98	1.26	0.69	0.42	B10
Total of Top Imports Under the Chapter		57.52	98.99	92.8	85.24	64.49	
Total Imports under the Chapter		70.49	113.09	105.3	99.63	79.37	
Share of Top Imports to Total Imports		81.60	87.53	88.13	85.56	81.25	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Table A.2. 45: India's Tariff Reduction Commitments under HS Chapter 34				
Chapter	Description	B10	X	Total
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations	51 *86.44*	8 *13.56*	59 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Table A.2. 46: India's Top Imports from Japan under HS Chapter 34							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
34021190	Others(e.g. alkyl sulphates, technical dodecylbenzene-sulphonates, etc)	0.4	0.55	0.4	0.79	1.02	B10
34021300	Non-ionic w/n for retail sale	1.01	0.79	0.65	1.02	1.06	B10
34021900	Other organic surface-active agents w/n for retail sale	1.35	1.58	0.54	0.35	0.43	B10
34029099	Other (other preparations) nes	1.53	2.4	2.66	2.07	2.67	B10
34031100	Preparations for the treatment of textile materials leather fur skins/other materials containing petroleum oils/oil obtained from bitumen	6.56	5.56	7.18	7.11	13.78	B10
34031900	Other preparations containing petroleum oils/ oils obtained from bituminous minerals	11.74	13.13	12.64	5.93	8.32	B10
34039100	Other preparations for the treatment of textile materials leather fur skins or other materials	15.45	14.49	22.71	28.95	28.12	B10
34039900	Other lubricating preparations	17.44	20.03	17.4	17.82	15.15	B10
34049090	Other artificial waxes and prepared waxes nes.	1.19	1.34	1.87	1.6	1.69	B10
Total of Top Imports Under the Chapter		56.67	59.87	66.05	65.64	72.24	
Total Imports under the Chapter		58.11	61.49	67.78	67.52	73.7	
Share of Top Imports to Total Imports		97.52	97.37	97.45	97.22	98.02	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Chapter 32: Tanning or dyeing extracts; tannins and their derivatives; Dyes, Pigments and other Colouring matter; Paints and Varnishes; Putty and other Mastics; inks

Imports of tanning and dyeing extracts from Japan declined from US$ 65.32 million in 2010-11 to US$ 60.82 million in 2014-15. However, the decline has not been steady. On the other hand, India's imports of these products from global sources have steadily increased during the period.

Out of a total of 337 tariff lines, tariffs on 326 are to be eliminated by 2021 (Table A.2.47). The MFN tariff on these products was about 7.87 per cent in 2015 while the preferential tariff was about 4.11 per cent.

Table A.2. 47: India's Tariff Reduction Commitments under HS Chapter 32				
Chapter	Description	B10	X	Total
32	Tanning or dyeing extracts; tannins and their derivatives, dyes, pigments and other colouring matter; paints and varnishes, putty and other mastics; inks.	326 *96.74*	11 *3.26*	337 *100.00*

Source: Calculated using India-Japan CEPA, Legal text.
Note: Figures indicate number of tariff lines with the percentage for each category in italics.

Table A.2. 48: India's Top Imports from Japan under HS Chapter 32							
Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
32041979	Other solvent based colouring matters	2.28	1.6	0.82	0.5	0.42	B10
32061110	Pearlsnet pigment (titanium dioxde coated micanneous and lustre pearl pigment)	0.74	3.13	1.92	1.4	1.47	B10
32061190	Pearlsnet pigment coated with other pearl pigment	1.32	2.01	1.93	1.2	1.1	B10
32061900	Other clearing matter containing	3.19	3.23	2.96	4.65	4.33	B10
32064990	Other preparations	4.02	2.62	6.33	5.11	4.8	B10
32065000	Inorganic product a kind used as luminophors	6.08	5.88	2.1	2.16	1.62	B10
32071090	Other prepared pigment pacifier colors, similar preparations.	1.47	2.29	4.04	4.07	3.74	B10
32074000	Glass frit and other glass in powder granule/flakes	3.07	0.76	0.85	0.57	1.2	B10
32082090	Other paint varnish based on acrylic/ vinyl polymer	1.37	0.77	1.01	2.86	3.3	B10
32089090	Other paint varnish(incl enamel and lacquer) based on synthetic polymer/ chemically modified natural polymer nes	3.76	3.88	3.95	2.53	3.15	B10
32099010	Dispersion paints	3.52	5.21	4.31	3.57	4.12	B10
32099090	Other paint varnishes (incl enamel and lacquers) based on other synthetic polymers etc n.e.s.;	2.41	3.16	2.4	1.9	1.85	B10
32110000	Prepared driers		0.11	0.53	0.29	0.97	B10
32129030	Aluminium paste	3.26	2.68	3.2	3.52	3.39	B10
32129090	Other pigments dyes and clearing matter n.e.s.	4.86	3.65	3.49	1.28	1.16	B10
32141000	Glaziers putty, grafting putty resin cements, caulking compounds and other mastics; painters fillings.	1.32	0.76	1	0.99	1.18	B10
32149090	Others	0.4	0.33	0.19	0.24	2.67	X
32151190	Other black printing ink	1.39	2.14	1.65	1.19	1.28	B10
32151940	Other screen printing ink	1.91	3.69	1.92	2.01	2.35	B10
32151990	Other parting ink and printers colours	5.15	6.38	3.8	3.34	2.68	B10
32159020	Ball pen ink	0.84	1.18	1.21	0.99	1.14	B10
32159090	Other ink nes	3.81	3.69	2.65	2.79	2.68	B10
Total of Top Imports Under the Chapter		56.17	59.15	52.26	47.16	50.6	
Total Imports under the Chapter		65.32	67.28	60.83	54.16	60.82	
Share of Top Imports to Total Imports		85.99	87.92	85.91	87.08	83.20	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Eleven tariff lines under this Chapter are exempted from any tariff liberalisation and the MFN tariff on these was about 9.77 per cent in 2015.

Imports of products under this Chapter have generally shown a decline (Table A.2.48). Nonetheless, India's major imports from Japan are clearing matter, dispersion paints, aluminium paste and other parting ink and printers colors.

Chapter 75: Nickel and articles thereof

Imports of nickel from Japan increased from US$ 8.29 million in 2010-11 to US$ 38.83 million in 2012-13 after which there was a dip to US$ 21.70 million in 2013-14. Imports of these products increased to a peak of US$ 48.17 million in 2014-15. All the 27 tariff lines in the Chapter will be liberalised by 2021. However, it is interesting to note that in 2015-16, the MFN tariff (2.5 per cent) on these products is lower than the preferential tariff (2.7 per cent). Despite this, figures available for the period April-September 2015 indicate that the imports will continue to rise.[87]

India's major import from Japan under this Chapter is nickel, not alloyed (Table A.2.49). Imports of this product increased from US$ 1.86 million in 2010-11 to US$ 39.09 million in 2014-15.

Other Items of Import

Apart from the items listed in the top twenty HS Chapters dealt with in the foregoing, there has been some rise in the imports of products such as friction material and articles of other mineral substances (HS 68138900) which falls under the exclusion category and which has shown some rise from US$ 6.77 million in 2010-11 to US$ 16.82 million in 2014-15. Products under the B10 category such as parts of railway (HS

Table A.2. 49: India's Top Imports from Japan under HS Chapter 75

Product	Description	Imports from Japan (in US$ million)					Category
		2010-11	2011-12	2012-13	2013-14	2014-15	
75021000	Nickel, not alloyed	1.86	29.81	29.56	15.65	39.09	B10
75051220	Bars, rods and profiles of nickel alloys	1.24	0.7	1.51	1.19	2.67	B10
75062000	Plates, sheets, foil etc of nickel alloys	2.97	2.23	3.26	2.14	3.53	B10
75071200	Tubes and pipes of nickel alloys	0.73	0.07	2.23	0.84	1.24	B10
Total of Top Imports Under the Chapter		6.8	32.81	36.56	19.82	46.53	
Total Imports under the Chapter		8.29	33.87	38.83	21.70	48.17	
Share of Top Imports to Total Imports		82.03	96.87	94.15	91.34	96.60	

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

87 Figures for import of non-alloyed nickel from Japan for the period April-September stood at US$ 22.78 million.

86079990), seats whether or not convertible into bed (HS 94019000), nonwovens filament (HS 56039200), acetate rayon (HS 55020010), other prepared glues and other adhesives (HS 35069999) have also shown a steady rise in the period after the implementation of the CEPA , even though the trade volumes are still low. On the other hand, import of diamonds which stood at US$ 50 million in 2010-11 declined to US$ 28 million in 2014-15 despite the tariff concession (B10).

Overall Assessment of Imports

Table A.2.50 compares tariff category wise growth in imports from Japan between 2010-11 and 2014-15. It is seen that on the whole, imports of products under the tariff category A have declined. Imports of products under the tariff category B5 have shown an increase of 40 per cent over a four year period. Products falling under this category are iron and steel and copper articles. There has also been some increase in the imports of products under the B10 category, chief among them being plastics, articles of steel, certain organic chemicals and miscellaneous chemical products, unalloyed nickel, coke of coal and petroleum coke. Imports of the two automotive products under the special category have also risen significantly. Furthermore, there has been some increase in the imports of products under the exclusion category especially under machinery and mechanical appliances and automotive parts. There have also been certain chemical items on which anti-dumping duties have been imposed, indicating that a surge in imports in them caused injury to domestic industry.

Table A.2. 50: Tariff Category-wise Growth in Imports of Top 20 HS Chapters

Tariff Category	Imports from Japan in 2010-11 (in US$ million)	Imports from Japan in 2014-15 (in US$ million)	Percentage increase
A	703.40	638.20	-9.27
B5	1033.73	1447.58	40.03
B7	2.50	8.77	250.80
B10	5030.98	5936.89	18.01
SPECIAL CASE	92.92	260.89	180.77
X	1180.88	1322.87	12.02
N/A	29.37	57.73	96.56
Total Imports from Japan for top 20 HS Chapters	8073.78	9672.93	19.81

Source: Compiled from data from DGCIS, Ministry of Commerce and Industry, Government of India.

Appendix

List of Products from Japan on which Antidumping Duties have been Imposed					
S. No.	Product Name	Product Code	Date	Type	Present Status
1	1, 1, 1, 2-Tetrafluoroetha or R-134 a	29033919	10-05-2011	Definitive duty	Sunset Review (SSR) initiated on 10-04-2015
2	Acetone	29141100	19-01-2011	Definitive duty	SSR initiated on 7-04-2015 (Extended till 11-06-2015)
3	Acrylic Fibre	550130	05-07-2010	Definitive duty	In force
4	Caustic Soda	281511 & 281512	31-08-2012	Definitive duty	In force
5	Cold Rolled Flat Products of Stainless Steel	7219	24-11-2009	Definitive duty	SSR initiated on 17-04-2014 (Extended till 16-10-2015)
6	Melamine	29336100	08-10-2012	Definitive duty	In force
7	Phenol	29071110 and 27079900	08-10-2010	Definitive duty	SSR initiated on 09-04-2015 (Extended till 17-06-2015)
8	Phthalic Anhydride	29173500	04-12-2015	Definitive duty	In force
9	Polyvinyl Chloride (PVC) Suspension Grade	39042210	04-04-2014	Definitive duty	In force
10	Cold Rolled/Cold reduced flat sheet products of iron or non-alloy steel	7209, 7211, 7225, 7226	19-04-2016	-	Initiation of investigations on 19-04-2016

Source: Ministry of Commerce and Industry, Government of India.

Annexure 3

India and Japan: Investment Relations

1. Introduction

From the 1960s to early 1980s, Japanese investments in India remained low despite a significant rise in Japanese FDI to other Asian countries. The only exception was the incorporation of Kerala Chemicals and Proteins Ltd. (today Nitta Gelatin India Ltd.) in 1975 which was established with minority Japanese ownership (Nitta Gelatin: 25 per cent; Mitsubishi Shoˆ ji: 10 per cent) and state support (promoted by Kerala State Industrial Development Corporation with a 26 per cent equity share). During the period 1981-88 which saw a phased deregulation of policies in India, Japan's investment in India grew to US$ 87 million.[88] The Japanese automotive giant Suzuki also entered into a joint venture with the Indian Maruti Udyog Limited during this period. Several Japanese firms in the automotive sector e.g., Toyota, Mitsubishi, Nissan and Mazda also entered into JVs with Indian partners later on.

The period after the launch of liberalisation measures in 1991, saw a steady rise of Japanese investments in India (Japan accounted for about 7 per cent of India's total equity inflow from 1991 to 1997). Several Japanese companies entered the market by establishing new production facilities.

2. Recent Trends in India's FDI Inflows from Japan

2.1 Trends as per DIPP Figures

The trend in Japan's FDI to India from April 2000 onwards is presented in Table A.3.1. Japanese investment in India expanded with varying annual inflows from 2000 onwards with inflows reaching a peak of US$ 4469 million in 2008-09 due to the massive investment by Daiichi Sankyo, Japan's second-largest drug manufacturer which bought a majority share in Ranbaxy, a deal which was valued at US$ 4.2 billion.[89] India's FDI stock from Japan rose to US$ 6.59 billion by 2008-09.

Japanese FDI inflows to India have remained significant in the succeeding period even if they did not reach the peak inflow in 2008-09 and India's FDI stock from Japan rose to US$ 18.35 billion in 2015. In

88 "Japanese foreign direct investment in India: An institutional theory approach", Peter J. Buckley, Adam R. Cross and Sierk A. Horn.

89 http://www.business-standard.com/article/markets/how-daiichi-lost-rs-6-034-crore-in-ranbaxy-u-turn-115042200927_1.html

Table A.3. 1: India's FDI Inflows from Japan					
Financial Year (April-March)	FDI equity inflows from Japan (in US$ million)		FDI equity inflows from all Countries * (in US$ million)		Share of Japan in India's total FDI Inflows
	Flow	Stock	Flow	Stock	*in %*
2000-01	223.66	223.66	2463	2463	9.08
2001-02	177.68	401.34	4065	6,528	6.15
2002-03	411.87	813.21	2705	9,233	8.81
2003-04	78.36	891.57	2188	11,421	7.81
2004-05	126.24	1017.81	3219	14,640	6.95
2005-06	208.29	1226.1	5540	20,180	6.08
2006-07	84.74	1310.84	12492	32,672	4.01
2007-08	815.2	2126.04	24575	57,247	3.71
2008-09	4469.95	6595.99	31396	88,643	7.44
2009-10	1183.4	7779.39	25834	1,14,477	6.8
2010-11	1562	9341.39	21383	1,35,860	6.88
2011-12	2971.7	12313.09	35121	1,70,981	7.2
2012-13	2237.22	14550.31	22423	1,93,404	7.52
2013-14	1718	16268.31	24299	2,17,703	7.47
2014-15	2084	18352.31	30931	2,48,634	7.38
2015-16*	814.64	19166.95	16631	2,65,265	7.23

Source: DIPP, Ministry of Commerce and Industry, Government of India.
Note: *April-September 2015.

recent years, Japan has ranked fourth in terms of source of FDI inflow in India with a share of about 7 per cent in India's total FDI stock.[90] The number of Japanese companies in India has doubled from 627 in 2009 to 1209 in 2014 and the number of Japanese residents has also risen from 4018 to 8313 during this period.

2.2 Trends as per JETRO Figures

Japan's outward FDI to India, according to data obtained from JETRO are given in Table A.3.2. This data gives net outflow of FDI during each year. There is a steady rise in Japanese investment during the period when CEPA negotiations were underway. While 2008 witnessed a peak, the inflows during the subsequent years have shown a mixed trend. There will be a large net outflow in 2015 with Daiichi selling off its stake in Ranbaxy.

The trend for Japanese investments into India appears similar as per the statistics maintained by the two sides, which show a steady rise in Japanese investment in India upto 2008 and an unsteady trend thereafter. However, there is considerable difference between year wise FDI flows. While, Indian figures were higher than the Japanese figures upto 2002-03, figures maintained

[90] Factsheet on Foreign Direct Investment (June 2015), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India.

Table A.3. 2: Japan's FDI Outflows to India (Balance of Payments basis, net and flow)			
Year	Japan's Outward FDI to India (US$ million)	Total Outward FDI from Japan (US$ million)	Share of India in Japan's Total OFDI in %
2000	174.67	31533.91	0.55
2001	150.50	38495.11	0.39
2002	145.55	32039.04	0.45
2003	124.14	28767.08	0.43
2004	139.09	30961.68	0.45
2005	265.88	45460.61	0.58
2006	512.40	50164.52	1.02
2007	1506.07	73483.06	2.05
2008	5551.20	130800.57	4.24
2009	3664.26	74650.03	4.91
2010	2863.60	57223.29	5.00
2011	2325.90	108807.68	2.14
2012	2802.10	122355.11	2.29
2013	2155.21	135048.69	1.60
2014	2210.96	136347	1.62
2015 (Jan-June)	-1721.96	130752	

Source: Compiled from data available on Japan External Trade Organisation website (https://www.jetro.go.jp/en/reports/statistics/).

by Japan were larger in the latter period with the difference increasing sizeably to more than US$ 1 billion in 2008-09 and more than US$ 2 billion in 2009-10. Though this difference has narrowed somewhat in the most recent years, it is still quite high. While some difference between the statistics is to be expected on account of different methods or recording and reporting data, it may be a subject for further study.

Japanese companies have been playing an important role in setting up of production networks which involve location of parts of fragmented processes in various East and South East Asian countries. India has, however, not figured in any major way in these networks even as certain of the Japanese affiliates in India, in particular in the automobiles sectors are exporting some of their products.[91] Therefore, while Japan is the fourth largest investor in India, India's share in Japan's total FDI stock worldwide was only 1.13 per cent by the end of 2014 as per JETRO figures. China (8.69 per cent) and even smaller ASEAN countries like Thailand (4.36 per cent), Singapore (3.80 per cent) and Indonesia (1.97 per cent) had

[91] "Japan's Economic Recovery and Growing Economic Relations with India" by Shujiro Urata and Mitsuyo Ando, Pages 35-67 in the book *Poised for Partnership* edited by Rohan Mukherjee and Anthony Yazaki. They note that the evidence for this low partnership in production networks is also confirmed by lack of deeper involvement in India in electrical machinery and integrated circuit electronics equipment sectors, unlike East Asian countries.

far higher (Table A.3.3) shares. Intra-firm trade involving Japanese affiliates in these countries with their parent companies in Japan also accounted for higher level foreign trade between Japan and these countries.

2.3 Changing Pattern of Japanese FDI in India

The pattern of Japanese FDI flow into India is also changing from what was predominantly a preference for a Joint Venture (JV) to now also include 100 per cent wholly owned investments by Japanese companies. Several automobile companies in particular that entered India through a JV partnership are now venturing through 100 per cent owned investments. There are also a number of investments that are coming through the M&A route. The trend started in the late 2000s, when the Japanese firms' mandates for Indian investment banks increased in mergers and acquisitions (M&A). Sectors such as specialty chemicals, retail and consumer goods, healthcare and information technology received special attention.[92] Furthermore, as soon as India's FDI policy on insurance changed to allow foreign investments upto 49 per cent from the earlier cap of 26 per cent, several Japanese investments in this sector made use of this increase to enhance their stake.

3. Sector-wise Break-up of Japan's FDI Inflows into India

Table A.3.4 gives sector-wise breakup of Japan's FDI into India for the period April 2000 to September 2015. Drugs and pharmaceuticals have attracted the maximum FDI from Japan which can be attributed to the Daiichi Sankyo and

Table A.3. 3: Comparative Rankings of Various Partners in India's FDI Inflows and Japan's FDI Outflows

Rank	Country	FDI Inflows into India (April '00 - March '15) (US$ million)	Share (in %)	Rank	Country	FDI Stock of Japan in various countries(end of 2014) (US$ million)	Share (in %)
1	Mauritius	87,555	35%	1	U.S.A.	3,83,646	31.93%
2	Singapore	32188	13%	2	China	1,04,355	8.69%
3	UK	22210	9%	6	Thailand	52,337	4.36%
4	Japan	18352	7%	7	Singapore	45,639	3.80%
				8	Korea	32,258	2.68%
				10	Indonesia	23,630	1.97%
				17	Malaysia	13,706	1.14%
				18	India	13,597	1.13%

Source: DIPP, Ministry of Commerce and Industry, Government of India, Government of India and JETRO website (https://www.jetro.go.jp/en/reports/statistics/).

[92] http://www.livemint.com/Companies/9vbxtwH0VdBxa4dXlSFqSJ/Japanese-companies-eye-deals-in-India.html.

Table A.3. 4: Key Sectors Attracting FDI Equity Inflows from Japan (from April 2000 to September 2015)				
Rank	Sector	Amount of FDI equity inflows		Percentage of FDI equity inflows from Japan
		Rs. in crores	In US$ million	
1	Drugs & Pharmaceuticals	22,046.45	4,458.27	23.26
2	Automobile Industry	18,430.75	3,501.81	18.27
3	Services Sector*	13,896.28	2,642.17	13.79
4	Metallurgical Industries	7,267.86	1,521.04	7.94
5	Electrical Equipment	5,476.38	1077.99	5.62
Total of Above		67,117.72	13,201.05	68.88

Source: DIPP, Ministry of Commerce and Industry, Government of India.
Note: *Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis.

Ranbaxy deal. However, since Daiichi announced its plans to exit India in early 2015, this picture will change in the future.

In the following sub-sections, some of the key investments specific to each of these sectors are outlined even as they may not be exhaustive. These are mainly based on newspaper reports and seek to give a glimpse of the investment activity.

3.1 Japan's FDI in Drugs and Pharmaceuticals Sector in India

Drugs and pharmaceuticals was the top sector attracting FDI from Japan with a cumulative FDI of US$ 4.4 billion for the period between April 2000 and September 2015 accounting for over 23 per cent share. A number of large Japanese companies such as Eisai, Takeda and Astellas, etc., have entered India apart from Daiichi Sankyo that has already been referred to.

In 2005, Eisai Co. Ltd. of Japan set up its 100 per cent subsidiary Eisai Pharmaceuticals India which signed a co-promotion agreement with GlaxoSmithKline Pharmaceuticals (GSK) for the launch of Paritec drug in India.[93] The company announced its plan to make India as a major manufacturing hub by setting up a API and drug formulation research facility at Jawaharlal Nehru Pharma City SEZ in Visakhapatnam, Andhra Pradesh in 2009. The facility, at an investment of US$ 300 million to US$ 400 million became operational in 2011.[94] The Vizag plant, located within the Eisai Knowledge Centre, currently supplies diethylcarbamazine citrate (DEC) tablets for treatment of lymphatic filariasis to the World Health Organisation (WHO), and Aricept, a treatment for Alzheimer's disease and dementia with Lewy bodies, among other products. The company is also hoping to supply drugs to markets throughout Asia, Russia and Africa from this facility. Besides

93 http://www.thehindu.com/2005/05/27/stories/2005052701821700.htm
94 http://www.business-standard.com/article/companies/india-is-growth-tonic-for-mid-tier-global-pharma-109110200012_1.html

manufacturing, Eisai would also start a formulation research centre in India.[95]

In 2008, Daiichi Sankyo entered the Indian pharmaceutical industry by acquiring a majority stake of more than 50 per cent in India's major pharmaceutical company Ranbaxy for about US$ 4.2 billion.[96] The deal was regarded a win-win partnership for both the companies, providing Daiichi Sankyo the advantage of Ranbaxy's low-cost manufacturing infrastructure and supply chain strengths and giving Ranbaxy greater access to the research and development expertise of Daiichi Sankyo to further its own growing branded drugs business.[97] However, Daiichi in 2015 announced its plans to exit India by selling its entire shareholding to Sun Pharmaceuticals. A number of factors were responsible for this. Soon after the deal, Ranbaxy was found guilty of numerous violations of US Food and Drug Administration (FDA) rules. The company paid a penalty to the FDA to settle the matter and the value of Daiichi's stake fell about half.[98] When Sun Pharma, purchased Ranbaxy in 2014, Daiichi got a 8.9 per cent stake in it and in April 2015, Daiichi Sankyo, sold its stake in the company via an open market transaction and exited the Indian market.[99]

Closely following Daiichi, Astellas Pharma Inc. established its subsidiary, Astellas Pharma India Private Limited in Mumbai on 14 November 2008 with an initial investment of INR 160 million. The move was aimed at establishing an early base in India which was seen as a huge and growing market. The company's operations primarily involved developing sales and marketing activities of in-house products especially in immunology and urology in which Astellas had strong franchise globally.[100] The company launched its first drug Prograf in India in April 2010. The company also had plans to emerge as a market leader in the organ transplantation segment in five years and foray into newer areas like urology and anti-infectives with innovative molecules.[101]

In the following year, another Japanese pharmaceutical company Takeda Pharmaceuticals announced its plans to enter India for which the firm undertook a study of the market.[102] However, when Takeda acquired Swiss company Nycomed for US$13.7 billion in 2011, it gained a 50 per cent stake in the Zydus Nycomed Healthcare Private Limited which later on came to be known as Zydus Takeda Healthcare Pvt. Ltd.[103]

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95 http://articles.economictimes.indiatimes.com/2007-02-03/news/28421098_1_japanese-pharmaceutical-market-prescription-drugs-products

96 http://www.rediff.com/money/2008/jun/11ranbaxy.htm

97 Ranbaxy & Daiichi Sankyo Co. Ltd. – Merger: An Intellectual Property and Business Perspective, Scope e-Knowledge Center Pvt. Ltd., October 2008

98 http://www.business-standard.com/article/companies/daiichi-to-exit-sun-pharma-115042000715_1.html

99 http://www.business-standard.com/article/markets/sun-pharma-slips-11-on-stake-sale-by-daiichi-sankyo-115042100126_1.html

100 https://www.astellas.com/en/corporate/news/detail/astellas-establishes-a-marketi.html

101 http://articles.economictimes.indiatimes.com/2010-05-10/news/28494572_1_transplantation-mycamine-prograf

102 http://www.business-standard.com/article/companies/japan-s-largest-drug-maker-takeda-plans-india-foray-109120200198_1.html

103 http://timesofindia.indiatimes.com/business/india-business/Takedas-13bn-Nycomed-buyout-to-benefit-Zydus/articleshow/8450594.cms

In August 2012, Tata group-promoted Advinus Pharma entered into a joint drug discovery deal with Takeda Pharma. As part of the deal, Advinus was to receive a guaranteed funding of US$ 36 million from Takeda to explore novel molecules in the areas of inflammatory disease, central nervous system and metabolic diseases. The research was expected to be spread over three years with the possibility of further expansion.[104]

Later in the same year, Ahmedabad-based Claris Lifesciences Ltd. entered into a JV with two Japan-based drug maker, Otsuka Pharmaceutical and Mitsui & Co Ltd. for its injectable business in India and Emerging Markets. Claris received a total cash consideration of INR 1050 crores over multiple agreements. As per the deal, Claris transferred Common Solutions, Anti-Infectives, Plasma Volume Expanders and Parenteral Nutrition therapies business for India and the emerging markets to the new joint venture Claris-Otsuka. The shareholding of Claris-Otsuka is Claris 20 per cent, Otsuka Pharma 60 per cent and Mitsui 20 per cent.[105]

Japan's Mitsui has also bought a 20 per cent (US$ 25 million) stake in India's top drug and medical supplies wholesaler Keimed which supplies some 25,000 pharmacies and hospitals and holds a reported market share of 15-20 per cent in cities such as Delhi and Mumbai. The investment provides the Japanese trading house with access to Apollo Hospitals Enterprise, a large Indian hospital chain. Mitsui will supply a broad range of drugs and medical devices from Japan and other advanced countries to India for Keimed to sell to medical institutions and pharmacies.[106]

Also in 2014, Meiji Holdings Co. Ltd. acquired Medreich Ltd. a Bangalore-based pharmaceutical company, for US$ 290 million (around INR 1,720 crore) through its pharmaceutical arm, Meiji Seika Pharma Co. Ltd. The acquisition was expected to help Meiji expand its generic drugs portfolio and gain a foothold in India and also help Meiji leverage Medreich's geographical reach.[107]

Despite the Daiichi reversal, many Japanese pharmaceutical companies are looking at India as a potential and promising market. Japan's Institute for Health Economics and Policy estimates India's pharmaceutical market to grow by 78 per cent to US$ 20 billion from FY 2014 to FY 2020. The estimates also predict that the demand would shift from cheaper medications and medical devices to cutting-edge products from foreign companies in areas such as oncology.[108] Another factor which the Japanese companies find attractive is the possibility of contract manufacturing which is preferred by these companies as the product development costs in Japan are high and rising. India is making an appropriate move by inviting Japan's pharmaceutical industry to locate their units in India either wholly owned or

104 http://articles.economictimes.indiatimes.com/2012-10-04/news/34260284_1_drug-discovery-japanese-pharma-giant-rashmi-barbhaiya

105 http://articles.economictimes.indiatimes.com/2012-12-07/news/35670612_1_arjun-handa-claris-lifesciences-plasma-volume-expanders

106 http://asia.nikkei.com/Business/Deals/Japan-s-Mitsui-to-buy-into-India-s-biggest-drug-wholesaler

107 http://www.livemint.com/Companies/LeJsqfhMi1SNEttpdW0ATJ/Japans-Meiji-buys-Bangalorebased-Medreich-for-290-mn.html

108 http://asia.nikkei.com/Business/Deals/Japan-s-Mitsui-to-buy-into-India-s-biggest-drug-wholesaler

in joint partnership with Indian companies. According to Dr. P V Appaji, Director General Pharmexcil, as many as 20 Japanese companies have expressed interest in using the contract manufacturing benefits from the US FDA-approved facilities in India.[109]

3.2 Japan's FDI in the Automotive Sector in India

The automotive sector attracted FDI from Japan to the tune of 18.27 per cent in Japan's total FDI inflows in India till September 2015. The figure is set to increase further given that the various Japanese automotive companies which entered India several years ago are in the process of stepping up their investments in India. The Indian market now ranks among the top five markets globally for almost all the top Japanese automobile brands with deep forays both in the passenger car and in the two wheeler segments.[110]

3.2.1 Investment in Passenger Cars

Suzuki Motors was one of the first entrants in the Indian automotive market. In 1981, the Indian government made Suzuki Motors a partner of Maruti Udyog Limited (MUL) with 26 per cent shareholding which was increased to 40 percent in 1989 and 50 percent in 1992.[111] Since then, Maruti Suzuki has grown to become the leading automotive manufacturer in India. The company's market share for the financial year 2014-15 was 45 per cent.[112] The company is also a market leader in exporting finished automobiles to other countries, and registered a growth rate of over 23 per cent in exports in fiscal year 2014-15 exporting over 92,000 units in over 100 countries such as Algeria, Chile, and Indonesia as well as developed markets such as EU.[113] Recently, the company has also started exporting Made-in-India "Baleno" car to Japan.[114]

Apart from the capital investment, Suzuki Motors also brought in technology, skills and efficient managerial practices. Consequently a number of multinational companies started investing in India thus making it one of the largest and fastest growing markets of the world, besides being an export hub for various global automobile manufacturers. Suzuki has started the construction of a manufacturing plant in Gujarat in 2015, with a planned investment of around INR 8,500 crore. The chairman of Suzuki called it "the second chapter of SMC in India". It is expected that at least 10-15 per cent of the production on this site would be exported. The company is deciding to include export specific products in the product portfolio for this plant.[115]

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109 http://www.process-worldwide.com/why-pharmaceutical-contract-manufacturing-in-india-is-growing-a-505970/

110 http://www.businessinsider.in/This-is-why-Honda-Suzuki-and-Toyota-love-India/articleshow/47011416.cms

111 http://www.freit.org/WorkingPapers/Papers/ForeignInvestment/FREIT562.pdf

112 http://economictimes.indiatimes.com/industry/auto/automobiles/maruti-suzuki-posts-highest-market-share-in-more-than-a-decade-in-july/articleshow/48445994.cms

113 http://www.business-standard.com/article/pti-stories/maruti-aims-20-growth-in-exports-in-2014-15-at-1-2-lakh-units-115011200493_1.html

114 http://in.reuters.com/article/maruti-suzuki-strategy-idINKCN0SK1LN20151026

115 http://www.business-standard.com/article/companies/maruti-s-third-manufacturing-site-hansalpur-will-see-10-15-exports-115012801246_1.html

Honda Motor Company, set up Honda Cars India Ltd. (HCIL), in India in 1995 with its first manufacturing unit at Greater Noida, U.P in 1997. HCIL also set up a second plant in Tapukara, Rajasthan which started production of cars from February 2014.[116] In 2015, the company announced its plans to expand its production facility in this plant by 50 per cent to 1.8 lakh cars per annum by mid-2016 with an investment of INR 380 crore.[117] The company has done well in the Indian market becoming India's third largest car brand after Maruti and Hyundai in 2014, up from 6th position earlier.[118] Its market share almost tripled to 7.2 per cent in the fiscal year 2014-15.[119]

Another Japanese motor company, Toyota Motor Corporation (TMC) established a joint venture with the Kirloskar Group in 1997. Toyota Kirloskar Motor Private Limited (TKM) grew rapidly to emerge as a significant player in India's passenger car and MUV market segments. It launched its first MUV, Qualis in 2000 which became instantly popular and within a short span of 2 years captured 20 per cent market share from established players like M&M and Tata Motors.[120] The company, however, faced serious setbacks in 2014 with dipping sales as well as labour issues.[121] The company has also invested in a diesel engine factory in Jignani district on the outskirts of Bengaluru set up at a cost of INR 800 crore. With an initial capacity of 100,000 units annually, the plant will be ready for commercial production by early 2016.[122]

Even relative newcomers like Nissan have stepped up their strategy for the Indian market. According to Arun Malhotra, MD, Nissan Motor India, the company's manufacturing facility in Chennai, India is the largest that the Alliance has developed so far across the world with a production capacity 480,000 units.[123] Like its competitors, the company also plans to get a greater share of the huge Indian car market and aims to increase its market share in India to nearly five per cent over a period of three-four years.[124] The company which mainly focusses on exports out of its plant in Chennai, exported over a lakh cars primarily to the Gulf region, West Europe and Latin America while domestic unit sales stood at 49,000 units in fiscal year 2014-15.[125] Further in 2015, Ford launched a limited edition variant of the EcoSport in Japan priced at

116 https://www.hondacarindia.com/about/companyprofile.aspx
117 http://timesofindia.indiatimes.com/business/india-business/Honda-Cars-to-expand-Tapakura-facility-to-invest-Rs-380-crore/articleshow/47386359.cms
118 http://www.thehindu.com/business/Industry/honda-zooms-to-third-spot-in-domestic-car-market/article5689979.ece
119 http://economictimes.indiatimes.com/industry/auto/automobiles/maruti-suzuki-posts-highest-market-share-in-more-than-a-decade-in-july/articleshow/48445994.cms
120 http://www.ibef.org/download/TOYOTA_24jan.pdf
121 http://economictimes.indiatimes.com/industry/auto/automobiles/toyota-kirloskar-motor-declares-lockout-at-bidadi-over-labour-woes/articleshow/32153156.cms
122 http://www.business-standard.com/article/companies/toyota-to-begin-trial-production-of-diesel-engines-soon-in-bengaluru-115051401108_1.html
123 http://www.businessinsider.in/This-is-why-Honda-Suzuki-and-Toyota-love-India/articleshow/47011416.cms
124 http://timesofindia.indiatimes.com/business/india-business/Nissan-aims-at-5-Indian-market-share-in-3-4-years/articleshow/47989955.cms
125 http://timesofindia.indiatimes.com/business/india-business/Nissan-aims-at-5-Indian-market-share-in-3-4-years/articleshow/47989955.cms

JPY 25,30,000 (INR 13.12 lakhs) in Japan, with production limited to 70 units only.[126] The car is manufactured in the company's plant in Chennai, India.

3.2.2 Investment in the Two-wheeler segment

A number of Japanese companies also entered into JVs with Indian partners for the manufacture of two wheelers during the 1980s. The tie-ups included TVS-Suzuki, Hero-Honda and Bajaj Kawasaki. Although these companies have since split up, with the Japanese partner setting up its wholly owned business in India, these Joint ventures helped in revolutionizing and strengthening the Indian two-wheeler market in the initial period. During the time that Maruti Suzuki Alliance was set up, Suzuki Motors also entered into a JV with TVS Motors in the two-wheelers market in 1982. The company faced some hurdles in the Indian market including losses in 1990 and labour problems in late 1980s but with a turnover strategy in 1992, it became India's second largest two wheeler manufacturing company in 1994. However, differences between the two partners started surfacing soon after. Later in 2001, Suzuki entered into an agreement with Kawasaki for product development, design engineering and manufacturing which was viewed as a direct conflict of interest by TVS. The two partners finally split in September 2001 with TVS buying the 25.97 per cent stake of Suzuki for INR 90 million.[127]

Suzuki re-entered the Indian two-wheelers market in February 2006 setting up its own manufacturing facility in Gurgaon, Haryana with an annual production capacity of 100,000 units in the initial stage at an investment of around US$ 44 million.[128] The company sold over 4.6 lakh two-wheelers in 2013 and planned to increase its market presence in India to sell around 1 million (10 lakh) two-wheelers in the following three years.[129]

Honda first entered the Indian market in 1984 through a JV with Kinetic Engineering Limited (Kinetic) to manufacture scooters. The partnership's flagship product, 'Kinetic Honda' was considered a game changer in the Indian scooter market. In the same year, Honda entered into another joint venture with the Hero Group called Hero Honda Motors Limited (Hero Honda) to manufacture motorcycles. The company soon became one of the market leaders in the two-wheeler market in India.[130] However, the two partners decided to end the JV in 2010 due to "unresolved differences and ambitious independent plans".[131]

Honda continued its operations in India through Honda Motorcycle and Scooter India Pvt. Ltd. (HMSI), a 100 per cent subsidiary of Honda Motor Company Ltd.,

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126 http://www.motorbeam.com/2015/01/cars/ford-ecosport/yellow-coloured-ford-ecosport-special-edition-launched-japan/

127 http://bikeadvice.in/suzuki-motorcycles-rise-fall-comeback-story/

128 http://www.ibef.org/download/suzukimotor.pdf

129 http://www.business-standard.com/article/companies/suzuki-motorcycle-expects-two-wheeler-sales-to-reach-1-mn-units-in-three-years-114092300889_1.html

130 http://www.business-standard.com/article/opinion/hero-honda-an-outstanding-performance-109073000088_1.html

131 http://timesofindia.indiatimes.com/business/india-business/Hero-Honda-split-terms-finalized/articleshow/7109297.cms

Japan, set up in 1999 at Manesar district in Gurgaon. Honda has become the largest two wheeler manufacturer as well as the second largest two-wheelers company in India with its market share registering a growth of 2 per cent points to 26 per cent in first quarter of FY 2015-16.[132]

Another Japanese two-wheeler company Kawasaki entered into a technical assistance agreement with Bajaj Auto Limited in 1984. Under the agreement, Bajaj produced and sold motorcycles in collaboration with Kawasaki. The company officially entered the Indian market with the launch of its subsidiary, India Kawasaki Motors in 2010 and set up a unit at its partner Bajaj Auto Limited's Chakan plant in Pune at an investment of INR 5 crores.[133] The two partners entered into a global alliance to jointly market their products across developing countries, including in the ASEAN region and South America in 2012.[134] However the relationship went through a "strategic shift" in 2013, with Kawasaki announcing that it will be riding solo in the Indian market. It has also moved the assembly operations of the Ninja range of bikes into its 100 per cent subsidiary, India Kawasaki Motors. The company created a new factory in the Bajaj Auto Akurdi campus on 10,000 square metre area for assembling 5,000 units a year.[135] It had a market share of 10 per cent in 500 cc segment and 15 per cent in the 100 cc segment in 2014.[136]

In 1996, Japan's Yamaha Motor Corporation entered into a technical support agreement with Escorts Group, and started local production of Yamaha motorcycles in 1985. In 1995, Yamaha and Escorts signed another contract, establishing Escorts Yamaha Motors Limited (EYML) to manufacture and market motorcycles in India.[137] In April 2000, Yamaha bought 24 per cent equity in Escorts Yamaha Motors (EYML) for INR 200 crores. Yamaha Motor Corporation controlled the management of the joint venture, manufacturing motorcycles in India for domestic market and exports.[138] In May 2001, Yamaha acquired the remaining 26 per cent of the stock held by Escorts Limited in the joint venture, Yamaha Motor Escorts Ltd (YMEL) thus making it a 100 per cent subsidiary. The company was renamed as Yamaha Motor India Private Limited (YMI).[139] The company is doing well in the Indian market and sold 5.49 lakh units up by 23 per cent compared to 2013 sales numbers, which were 4.47 units and has set a target of eight lakh units sales in 2015, 10 lakh units in 2016 and 12 lakh units in 2017.[140]

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132 http://www.honda2wheelersindia.com/honda-2wheelers-increases-market-leadership/

133 http://articles.economictimes.indiatimes.com/2010-04-24/news/27600906_1_chakan-plant-indian-market-ninja

134 http://www.business-standard.com/article/companies/bajaj-and-kawasaki-to-jointly-market-mobikes-globally-112091900078_1.html

135 http://archive.financialexpress.com/news/kawasaki-to-split-from-bajaj-for-ninja-superbikes/1165231

136 http://www.newindianexpress.com/business/news/India-Kawasaki-Motor-to-Launch-4-More-Models/2015/08/11/article2968091.ece

137 http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/Business%20Strategy%20The%20Escorts%20-%20Yamaha%20Motors%20Break-Up.htm

138 http://www.thehindu.com/2000/04/25/stories/06250006.htm

139 http://global.yamaha-motor.com/news/2001/0612/india.html

140 http://www.business-standard.com/article/companies/yamaha-targets-12-lakh-unit-sales-by-2017-115041700302_1.html

In all, close to 250 Japanese auto component makers were already operating in India (upto October 2014) and it was expected that this number would grow by 35-40 per cent over the next five years as these companies sought to boost their investments in the Indian market.[141]

3.3 Japan's FDI in Services Sector in India

The pattern of Japanese FDI which concentrated mainly in the manufacturing sector showed some diversification in the late 2000s, with a few large Japanese companies venturing into the services sector. For the period between April 2000 to September 2015, about 13.79 per cent of Japanese FDI in India was directed towards the services sector in areas such as asset management, insurance, banking, retail, etc. Some of the major investments are discussed below.

3.3.1 Asset Management

A major investment in this sector took place in October 2008, when Nomura, a leading Japanese global investment bank, acquired the majority share of Lehman Brothers' holding in India, including the equities sales and trading, equity research, fixed income liquid markets sales and trading, and investment banking teams. By integrating the former Lehman Brothers India franchise and obtaining its merchant banking licence and stock exchange memberships, Nomura India significantly expanded its capabilities in India through a wide range of onshore financial solutions spanning securities brokerage, securities underwriting and advisory services. Nomura employs over 2,600 people in India.

In 2012, Nippon Life Insurance Company (NLIC) acquired a 26 per cent stake in a Reliance subsidiary, Reliance Capital Asset Management (RCAM) for INR 1,450 crore (US$ 290 million) in 2015.[142] Nippon also committed an investment of INR 1,196 crore (US$ 184 million) for acquiring 49 per cent stake in RCAM, thereby taking its total investment to INR 8,542 crore (US$ 1.3 billion). Post approvals, Nippon Life Insurance would become the co-sponsor in Reliance Capital Asset Management and the name of the company will also be changed from Reliance Capital Asset Management to Reliance Nippon Life Asset Management.[143]

Sumitomo Mitsui Financial Group Inc. (SMFG), the second largest Japanese bank by market value acquired a 4.5 per cent stake in Kotak Mahindra Bank Ltd. for US$ 296 million (INR 1,380 crore) in 2010. The deal allowed SMFG to team up with Kotak Mahindra in asset management, stock broking and investment banking operations.[144] Later on in 2012, Kotak Mahindra Capital Company announced the formation of a strategic alliance with Sumitomo Mitsui Banking Corporation (SMBC) and its subsidiary SMBC Nikko Securities Inc (SMBC Nikko) for cross-border M&A advisory services between India and Japan.[145]

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141 http://www.livemint.com/Industry/rmt6D1zNHDQeA5tFBkMZwJ/Japanese-auto-component-firms-eye-bigger-pie-of-Indian-marke.html

142 http://www.reliancecapital.co.in/pdf/Download-Annual-Report-2011-12-Unabridged.pdf

143 http://www.reliancecapital.co.in/pdf/Nippon-LIfe-Increases-Stake-in-Reliance-Capital-Asset-Management-13-Oct-15.pdf

144 http://www.livemint.com/Home-Page/VRAMY2G2dQAfhB4t0bdm4J/Sumitomo-to-buy-45-stake-in-Kotak-Bank.html

145 http://www.business-standard.com/article/finance/kotak-mahindra-in-pact-with-sumitomo-mitsui-smbc-nikko-112121300669_1.html

3.3.2 Banking

All the three major Japanese banks have opened branches in India. Mizuho Bank which started with two branches in Delhi and Mumbai has quickly set up three more branches in India in Bangalore, Chennai, and Ahmedabad. Bank of Tokyo Mitsubishi UFJ (BTMU) which was one of the first Japanese banks to open its branch in India in 1953, serving mainly Japanese corporates, now has five branches in India in Delhi, Bengaluru, Chennai, Mumbai and Neemrana.[146] It also has plans to double its branches in India to 10 over the next three years.[147] In 2013, Sumitomo Mitsui Banking Corporation (SMBC) launched its commercial banking business in India by opening a branch in New Delhi.[148]

3.3.3 Insurance

3.3.3.1 Life Insurance

Insurance has been another major area of Japanese investments in India. In February 2009, Bank of India, Union Bank of India and Dai-ichi Life, a leading life insurance company of Japan entered into a joint venture, Star Union Dai-ichi Life Insurance Company Limited (SUD Life) with an authorised capital of INR 250 crores. Bank of India has a capital stake of 48 per cent, Union Bank of India has 26 per cent, and Dai-ichi Life has the remaining 26 per cent.[149] The company reported its maiden profit of INR 12.87crores in FY 2014-15, its 6th full year of operations.[150] Dai-ichi Life of Japan is planning to increase its stake to 44 per cent from 26 per cent at present.[151]

In October 2011, Nippon Life Insurance Company (NLIC) acquired 26 per cent equity share capital of Reliance Life Insurance Company (RLIC).[152] In December 2015, NLIC invested an additional INR 2265 crore in RLIC, increasing its stake to 49 per cent from 26 per cent also changing the company's name to Reliance Nippon Life Insurance Company Limited.[153]

Japan's Mitsui Sumitomo Insurance Company Limited also purchased a 26 per cent stake in Max New York Life Insurance Company, a joint venture between Max India Ltd and US-based New York Life Insurance Company, for INR 2,731 crore in an all-cash transaction in 2012.

Edelweiss Tokio, a joint venture between Edelweiss Financial Services, one of India's financial services companies and Tokio Marine Holdings Inc., of Japan was also incorporated in 2011. The company has recently received approval to increase Tokio Marine's stake to 49 per cent in the Joint

146 http://www.bk.mufg.jp/global/newsroom/featuredarticle/2014_03.html
147 http://www.business-standard.com/article/finance/bank-of-tokyo-mitsubishi-to-double-branch-count-in-india-115070600258_1.html
148 http://articles.economictimes.indiatimes.com/2013-05-04/news/39027206_1_foreign-currency-loan-smbc-dmic
149 http://www.unionbankofindia.co.in/AboutUs_JointVenture_StarUnionDaiIchi.aspx
150 http://www.indiainfoline.com/article/news-top-story/star-union-dai-ichi-life-profit-at-rs-12-87-crore-in-fy15-115050600636_1.html
151 http://www.business-standard.com/article/finance/star-union-dai-ichi-life-expects-30-growth-in-new-premiums-in-fy16-115092201016_1.html
152 http://www.reliancelife.com/about-company.aspx
153 http://www.livemint.com/Companies/1FucZOG5iYA5uPpPpjtaeP/Nippon-Life-to-pay-Rs2265-crore-to-raise-stake-in-Reliance.html

venture. The increase in Tokio Marine's stake will lead to a foreign direct investment of over INR 525 crore.[154]

3.3.3.2 General Insurance

IFFCO-Tokio General Insurance incorporated in December 2000, is a JV between Indian Farmers Fertilizer Co-operative (IFFCO) and its associates and Tokio Marine and Nichido Fire Group.[155] IFFCO Tokio General Insurance has 65 "Strategic Business Units' (SBU's) and a wide network of over 120 'Lateral Spread Centres' (LSC's) and 255 Bima Kendras in India. From INR 213 crore of GWP (Gross Written Premium) in 2001-02 it has reportedly achieved INR 2248.16 crore in 2011-12, thereby becoming one of India's leading private players.[156]

Another Indo-Japanese JV in this area is Cholamandalam MS General Insurance Company Ltd. which is a JV between Murugappa Group and Mitsui Sumitomo Insurance Group of Japan set up in 2003. Cholamandalam MS offers a wide range of products that include accident, engineering, health, liability, marine, motor, property, travel and rural insurance for individuals and corporates. The company achieved a GWP of INR 1855 crores in 2013-14 and has 105 branches and over 9000 agents across the country.[157] In December 2015, Mitsui Sumitomo Insurance Co., Ltd. additionally acquired 14 per cent of the outstanding shares of Chola MS for approx. INR 8.8 billion to raise its ownership to 40 per cent.[158]

3.3.4 Retail

In the retail industry, a few Japanese firms are reported to be in the process of finalising deals with Indian counterparts to enter this segment. Japanese 100-yen store Daiso is in talks with Reliance Retail to enter the Indian market. The company is planning a joint venture tie up with Reliance Retail for a shop-in-shop format across its various stores in the country.[159] Similarly, Lawson of Japan is talking to three potential partners in India, to open 20-30 stores to showcase the group's convenience store model.[160] Japanese retail giant and Asia's largest player, Aeon Corporation, also has plans to enter the multi-brand retail sector in India. The company is scouting for potential partners.[161]

Japanese retail giant Uniqlo is also set to open up to 1,000 stores in India in the coming years to tap into the growing consumption and announced a strategy to source garments from the country.[162] Also, Japanese retailer Muji, has entered inot a JV with Reliance Brands, a unit of Reliance Industries to open its stores in India. Muji sells a wide array of products ranging from stationery and clothing to furniture and food. The first

154 http://www.edelweisstokio.in/news/57/view.aspx
155 http://www.iffcotokio.co.in/about-us/our-company
156 http://www.iffcotokio.co.in/about-us/our-company/company-profile
157 http://www.cholainsurance.com/about-us.aspx
158 http://www.thehindubusinessline.com/markets/tube-investments-to-sell-stake-in-insurance-jt-venture/article8028923.ece
159 http://www.thehindubusinessline.com/companies/100yen-store-daiso-eyes-tieup-with-reliance-retail/article2531979.ece
160 http://www.ft.com/intl/cms/s/0/e94c9e3c-6dc1-11e1-b9c7-00144feab49a.html#axzz3zwqNAIMf
161 http://archive.financialexpress.com/news/japanese-retailer-aeon-looks-for-partners-for-india-entry/1193255
162 http://timesofindia.indiatimes.com/business/india-business/Uniglo-ready-to-set-up-1000-stores/articleshow/37208937.cms

few standalone Muji stores will reportedly come up in Delhi and Mumbai by middle of 2016.[163]

3.3.5 Hospital Services

In 2012, Japan's Secom Medical Systems, which operates 5,500 hospital beds across 18 hospitals in Japan, entered into a JV with Indian Kirloskar Group to set up a super specialty, 300-bed hospital in Bengaluru at an investment of Rs 200 crore. While the Kirloskar's hold a 50 per cent stake in the JV which was named Takshasila Healthcare and Research Services, the remaining stake is split between the Secom Group and Toyota Tsusho Corporation, the trading arm of Japanese auto giant Toyota.[164] In 2014, the Japan Bank for International Cooperation (JBIC), a financial institution of the Japanese government, invested INR 63 crore (US$ 10.5 million) in this venture.[165]

3.3.6 Telecom

One of Japan's major investments in services in India happened when NTT DoCoMo entered the Indian market in March 2009 by acquiring 26.5 per cent stake in privately held Indian telecom firm Tata Teleservices. The investment was rolled in two tranches starting with around INR 13,280 crore (US$ 2.57 billion) in March 2009 and INR 800 crore (US$ 178 million) in May 2011. Docomo saw the joint venture as an opportunity to tap the fast growing cellular network market in India. However, high prices paid by operators to acquire telecom frequencies for third-generation services in 2010 and a margin-denting price war weakened the finances of companies. Policy uncertainties and controversies over telecom licence allotment further hurt the business environment. Tata Tele, which remains one of the smaller operators in a market of about 900 million users continuously failed to register any profits in these years.[166] As a result, in April 2014, the Japanese company announced to sell its entire stake in the JV as certain performance targets to be met at the end of every fiscal year as specified in the original contract could not be met by Tata Teleservices.[167]

As per the original terms of the agreement, DoCoMo had a put option, which specified that it would get at least 50 per cent of its acquisition price or the stake's fair market price, whichever is higher, if it exits the JV in five years.[168] In March 2015, Tata Sons requested the RBI to allow them to buy Docomo's stake at a premium value (INR 58 per share) to honour the initial agreement which was rejected by the RBI.[169] In July 2015, Tata group offered to buy out Docomo's 26.5 per cent stake in JV for

163 http://timesofindia.indiatimes.com/business/india-business/Reliance-Brands-to-launch-Muji-in-India/articleshow/47697311.cms
164 http://timesofindia.indiatimes.com/business/india-business/Japanese-company-ties-up-with-Kirloskars-for-hospitals/articleshow/14284083.cms
165 http://www.vccircle.com/news/healthcare-services/2014/07/01/jbic-invests-105m-takshasila-hospitals
166 http://articles.economictimes.indiatimes.com/2014-04-26/news/49422712_1_ntt-docomo-tata-group-tata-teleservices
167 http://www.livemint.com/Companies/JX8vEq6fUPOWn2BDWZVnvN/NTT-Docomo-to-sell-265-stake-in-Tata-Teleservices.html
168 http://articles.economictimes.indiatimes.com/2014-04-26/news/49422712_1_ntt-docomo-tata-group-tata-teleservices
169 http://articles.economictimes.indiatimes.com/2015-03-25/news/60475218_1_tata-teleservices-tata-sons-finance-ministry

INR 23.34 a share. However, Docomo has moved the London Court of Arbitration to get a valuation of INR 58 a share, which translates into INR 7,200 crore for its entire stake in Tata Tele.[170]

3.4 Iron and Steel

Japanese investment in metallurgical industries, primarily iron and steel is around 8.19 per cent. Several Japanese steel companies including, Kobe Steel, Nippon Steel, JFE Steel and Sumitomo Metals have entered into joint ventures with Indian companies to set up their production bases in India. In one of the first deals in this sector, Bhushan Steel Ltd. signed a technical collaboration and marketing agreement with Sumitomo Metals, Japan's third-largest steel producer in 2009.[171] However, the deal could not go through when Nippon Steel and Sumitomo Metal, the two Japanese steelmakers merged together. The newly formed company decided to retain its long-standing ally, Tata Steel, as their lone partner in India while compensating the second partner, Bhushan Steel, to avoid possible project duplication and competition issues, according to reports.[172]

Kobe Steel entered into a JV with India's largest steelmaker Steel Authority of India Limited (SAIL) to set up a half a million tonne iron nugget plant in Durgapur with an investment of about INR 1,500 crore[173], using the Japanese steelmaker's patented technology.[174]

In 2013, Tata Steel signed a joint venture agreement with Nippon Steel Corporation of Japan to set up a plant to make automotive cold-rolled steel, at an investment of INR. 2,300 crore.[175] The plant was to source steel from Tata Steel's Jamshedpur plant and use Nippon Steel's technology for production of high-grade cold-rolled steel sheet to meet the growing needs of the Indian automobile sector.[176] The plant called Jamshedpur Continuous Annealing and Processing Company Private Limited (JCAPCPL) was a 51:49 joint venture between Nippon Steel Corporation & Sumitomo Metal Corporation (NSSMC)[177] of Japan and Tata Steel. It was inaugurated in 2014 with a reported investment of INR 2,750 crore.[178]

Another Japanese company, JFE bought a 14.9 per cent stake in Indian Jindal Steel Works (JSW) for INR 4,800 crore in 2010. It

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170 http://www.thehindu.com/business/Industry/tata-teleservices-stake-sale-ntt-docomo-files-arbitration-request/article6757139.ece

171 http://www.business-standard.com/article/companies/bhushan-steel-ties-up-with-sumitomo-109121700011_1.html

172 http://articles.economictimes.indiatimes.com/2011-06-15/news/29660259_1_nippon-steel-tata-steel-bhushan-steel

173 http://articles.economictimes.indiatimes.com/2013-06-08/news/39834534_1_durgapur-steel-plant-sinter-plant-wire-rod-mill

174 http://articles.economictimes.indiatimes.com/2012-07-11/news/32633220_1_kobe-steel-alloy-steels-plant-steel-authority

175 http://www.thehindubusinessline.com/todays-paper/tata-steelnippon-venture-to-make-auto-grade-steel-in-jamshedpur/article2325721.ece

176 http://www.livemint.com/Companies/akNYvebY5qJEdv59EaFsfM/Tata-Steel-forges-JV-with-Nippon-Steel.html

177 Nippon Steel & Sumitomo Metal Corporation (NSSMC) was established in October 2012 by the merger of Nippon Steel Corporation and Sumitomo Metal Industries, Ltd.,

178 http://www.tata.com/company/releasesinside/JCAPCPLs-Continuous-Annealing-and-Processing-Line-inaugurated-by-Chairman-Tata-Sons-and-Chairman-Nippon-Steel-and-Sumitomo-Metal-Corporation

acquired an additional 1.18 per cent in the first quarter of 2013 and planned to increase its stake in JSW Steel by another five per cent.[179]

3.5 Electrical Equipment

In the electrical equipment sector, the JSW group in India entered into a joint venture with Toshiba Corporation in 2008 (75 per cent Toshiba, 25 per cent JSW) with the Japanese company investing US$ 160 million (INR 800 crore) in the JV. The venture which was called Toshiba JSW Power Systems Private Limited in Chennai started commercial operations in January 2011 and manufactures generators and turbines for the domestic market.[180] Toshiba also took over Vijai Electricals in December 2013 to form Toshiba Transmission & Distribution Systems (India) Pvt. Ltd. (TTDI).[181] The company is manufacturing switch gears and transformers in India.[182]

In another major deal in this sector, in 2007, Matsushita Electric Works (MEW) of Japan, owners of the National and Panasonic brands, acquired 80 per cent equity stake in the privately held Anchor Electricals for INR 2,000 crore.[183] The company which makes switches, switchgear and wiring devices for Panasonic brand in India is also planning to make luminaries. According to Anchor Electricals' Director - Sales and Marketing, Ashok Gangar, the company started solar segment and exports in 2015 which are expected to grow at a rapid pace in the near future. The company plans to make big investments in Anchor in India to make it a hub for exports to Africa, South Asia and Middle East markets.[184] M/s Sterlite Technologies Limited Pune, has entered into a joint venture with VISCAS of Japan in 2014 for manufacturing extra high-voltage cables in India, in which the latter would also have a 51 per cent share.[185]

3.6 Food Processing

In the food processing sector as well, Toyo Suisan and Ajinomoto have decided to establish an instant-noodles production joint venture, Maruchan Ajinomoto India, in Chennai. They aim to produce 500 million packages of instant noodles a year in 10 years.[186]

Also recently, GMR Infrastructure, an Indian infrastructure enterprise has recently announced that its subsidiary Kakinada SEZ Private Limited has signed an agreement with Japan's JGC Corporation for co-developing Japanese Oriented Food Processing Park at its Kakinada SEZ. JGC

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179 http://www.business-standard.com/article/markets/jfe-may-hike-stake-in-jsw-by-another-5-114100600013_1.html

180 http://toshiba-tjps.in/files/aboutus.htm

181 http://economictimes.indiatimes.com/new-sections/energy/toshibas-comprehensive-energy-solutions/lifenologyshow/39299818.cms

182 https://www.toshiba.co.jp/sis/en/tands/ttdi/products_and_services.htm

183 http://www.thehindubusinessline.com/todays-paper/matsushita-buys-80-stake-in-anchor-electricals/article1656243.ece

184 http://articles.economictimes.indiatimes.com/2016-01-26/news/70091645_1_anchor-electricals-export-hub-switches

185 http://www.livemint.com/Companies/BvAmWgWSa3R6FAGxTKzybK/Sterlite-Technologies-Japans-Viscas-to-manufacture-EHV-cab.html

186 http://www.japantimes.co.jp/news/2013/12/19/business/corporate-business/food-pair-plan-noodle-jvs-in-india-nigeria/#.VjYePdIrLIV

and GMR will jointly undertake a detailed study for developing and operating the export oriented food processing park catering to various food and agro processing sectors like sea food, fruits & vegetables, pulses & grains, dairy and spices & nuts.[187]

3.7 Other announced Investments

Recently in 2015, Japan's SoftBank Corp, together with Bharti Enterprises and Taiwan's Foxconn (SoftBank will have majority control in the newly formed company, SBG Cleantech, with Bharti and Foxconn as minority stakeholders) has announced its plans to invest about US$ 20 billion in solar projects in India, in one of the biggest investment pledges to date in the country's renewable energy sector.[188]

Further, several Japanese electronics firms in India are also in the process of stepping up their investments in India. Sony, which shut down its production facility in India in 2004 and now imports products from plants in Thailand, Malaysia, China and Japan for sale in India, is reconsidering setting up its production unit in India. According to Mr. Kenichiro Hibi, Managing Director of Sony Corporation, recent initiatives of the government, such as allowing foreign companies manufacturing in India to directly sell their products online, as well as signs of a turnaround in the economy with stable exchange rate raise hopes for it becoming a successful manufacturing base for the company's operations. Other Japanese companies are also keen on increasing their investment in India. For example, while Japanese consumer electronics firm Panasonic recently invested INR 1,000 crore to set up a manufacturing plant in India, companies such as Daikin, Sharp and Hitachi are also raising their investments in India.[189]

4. Japanese Projects in India

Apart from the various Japanese private investments in India, Japan is also an important strategic partner for India in providing assistance to set up industrial infrastructure in India that can help boost investment. Japanese organisations such as Japan International Cooperation Agency (JICA) and Japan Bank for International Cooperation (JBIC) have been actively engaged in providing loan assistance and equity support for various infrastructure and development programmes of the Government of India. In this sub section the roles being played by JICA and JBIC are briefly captured, followed by some details about the setting up of industrial parks and smart cities.

4.1 Role of Japan International Cooperation Agency (JICA)

JICA is the implementing agency of ODA of the Government of Japan and India has been the largest recipient of its ODA assistance mainly in the form of yen loans.[190] For the period 2003-04 to 2014-15, JICA's ODA loan to India was JPY 2.4 trillion even though disbursements were lower (Figure A.3.1).

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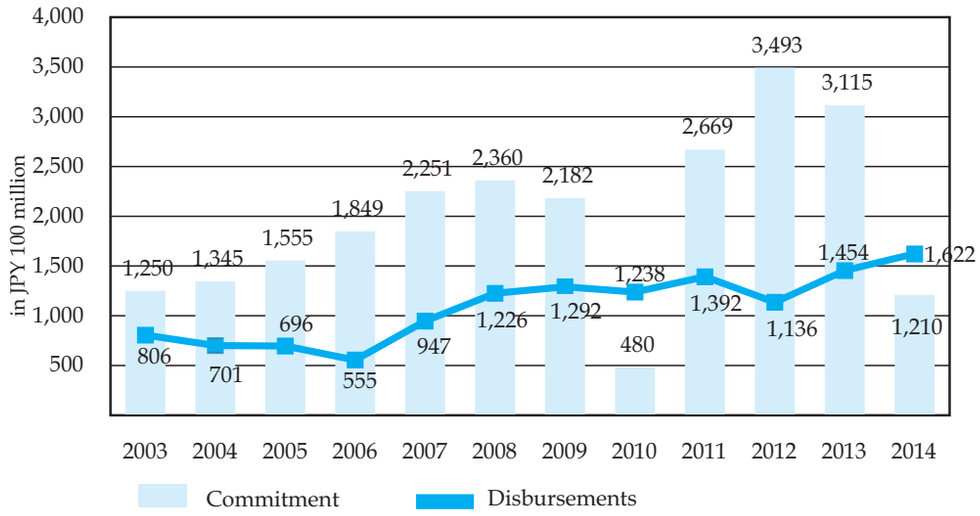
187 http://economictimes.indiatimes.com/industry/indl-goods/svs/construction/gmr-infra-japans-jgc-in-pact-to-co-develop-food-processing-park-at-kakinada-sez/articleshow/49309949.cms

188 http://in.reuters.com/article/2015/06/22/softbank-india-solar-idINKBN0P217I20150622

189 http://articles.economictimes.indiatimes.com/2014-08-26/news/53243490_1_indian-prime-minister-kenichiro-hibi-manufacturing-plant

190 http://www.mofa.go.jp/region/asia-paci/india/pmv0504/oda_i.pdf

Figure A.3. 1: JICA's Loan Commitment and Disbursements to India



Source: Presentation by Katsuo Matsumoto, South Asia Department, JICA at Conference India-Japan Economic Relations: Bilateral Dimensions, 17 November 2015 at New Delhi.

JICA has helped in the development of both urban and basic infrastructure including through the metro projects in five major cities in India, 72 electricity generation, transmission and distribution projects in different parts of India and the several industrial corridors under development. About 51 per cent of its ODA loan commitments during this period were towards the transport sector followed by the water and sanitation sector at 17 per cent, energy sector at 15 per cent, and forestry and agriculture with 10 per cent.[191] Japan also extends technical cooperation through deputation of experts who have numbered more than 600 per year and by providing training for Indian participants numbering 300 or so annually.

During Prime Minister Abe's visit to India in December 2015, India and Japan signed a MoU for a bullet train project (Shinkansen system) between Ahmedabad and Mumbai on a 505 kilometre track. As per the understanding, Japan will provide a soft loan of JPY 1.5 trillion (approximately INR 79,000 crore that will be 80 per cent of the cost) with a moratorium period of 15 years and an interest rate of 0.1 percent. The loan is for a period of 50 years. The project is to be implemented over a period of seven years.[192]

JICA is also seeking to contribute to the improvement of the overall investment environment by its assistance towards projects such as the Delhi-Mumbai

[191] http://www.projectsmonitor.com/interviews/delhi-metro-is-a-shining-example-of-the-india-japan-cooperation/

[192] http://www.deccanherald.com/content/517166/mou-bullet-train-project-signed.html

Dedicated Freight Corridor, the Delhi-Mumbai Industrial Corridor (DMIC) and the Chennai-Bengaluru Industrial Corridor (CBIC) and the Tamil Nadu Investment Promotion Program.[193] For the Railway Freight Corridor, JICA has signed loans for INR 5100 crores for the first phase in 2010 and INR 7750 crores for the second phase in 2013. In DMIC for example, Japan has committed US$ 4.5 billion in the first stage through lending by JICA and JBIC which together hold 26 per cent equity in the project.[194]

JICA has also extended integrated support programme to the Indian Institute of Technology, Hyderabad (IIT-H) for its campus development through ODA loan, joint research collaboration, and academic exchanges through technical cooperation. This special programme for collaboration with IIT-H aims at developing research network between IIT-H and higher educational institutions/industrial clusters of Japan.[195]

4.2 Role of Japan Bank for International Cooperation (JBIC)

JBIC has also been involved in financing operations in India in the form of export loans, overseas investment loans for Japanese subsidiaries and joint ventures in India, untied loans and guarantees for improving investment room for Japanese companies in India, equity investments where Japanese companies participate, export credit, investment loans and equity holdings. JBIC has taken direct equity participation of 26 per cent in DMIC, US$ 22 million in the core infrastructure fund of Brookfield and the INR 63 crore in Sakura World Hospitals in support of the joint venture between Takshasila hospitals and Toyota Tsusho Corporation. JBIC has also extended several investment loans to Japanese companies supporting their investments in India. These include in 2014, the JPY 4.8 billion to Ellenbarrie Industrial Gases Limited (EIGL) for production and selling of industrial gases[196] and the JPY 3 billion to Kusakabe India Private Limited for supporting production and supply of pipe mills.[197]

4.3 Industrial Townships/Parks

As part of the Action Agenda for "India-Japan Investment and Trade Promotion and Indo-Pacific Economic Integration" signed at ministerial level between the two countries on 30 April 2015, it has been agreed to develop 11 potential sites[198] as Japan Industrial Townships in India especially in the DMIC and CBIC regions in order to facilitate investments. Later, Pithampur Industrial Park in Madhya Pradesh was added to the list.[199] These Industrial Townships are envisaged as Integrated Industrial parks with ready-made

193 http://www.jica.go.jp/india/english/
194 http://articles.economictimes.indiatimes.com/2015-05-07/news/61902761_1_industrial-townships-nimzs-shinzo-abe
195 http://www.jica.go.jp/india/english/activities/activity22.html
196 https://www.jbic.go.jp/en/information/press/press-2014/0710-25124
197 https://www.jbic.go.jp/en/information/press/press-2014/1107-31818
198 These include Jhajjar in Haryana, Greater Noida in Uttar Pradesh, Ghilot in Rajasthan, Mandal in Gujarat, Supa in Maharashtra, Tumkur in Karnataka, Areas between the south border and Krishnapatnam Port in Andhra Pradesh, Ponneri, One Hub Chennai and Motherson in Tamil Nadu
199 http://dipp.nic.in/japanplus/township.aspx

operational platform, well equipped with world class infrastructure facilities, plug-in-play factories and investment incentives for Japanese companies. It was agreed between the two sides that investment incentives for companies would not be lower than that prevailing for SEZs or National Investment and Manufacturing Zones (NIMZ).

The sectors in which investments are expected will be wide-ranging, from auto components to textiles, food processing and engineering. Japan will also extend its industrial township advance soft-skills development project to impart training to workers in the manufacturing sector.[200]

So far, the response of the Japanese companies to these industrial parks has been positive. One of the first to come up has been in Neemrana in Rajasthan and has been created with the cooperation of the Japanese government and the state government of Rajasthan. It has attracted some of the most prominent Japanese industrial houses to set up units in this area, covering over 70 per cent of its total area (as of April 2013). Amongst the prominent companies in this region, Daikin Air-conditioning India Private Limited, established its first Indian unit attracting an investment of INR 600 crores. Others include Mitsui Chemical Private Limited (INR 400 crore); Nissan India Private Limited (INR 240 crore); Unicharm India Hygienic Private Limited (INR 160 crore); ACI Mitsui Prime Advanced Composites Private Limited (INR 120 crore); Mikuni India Private Limited in auto parts (INR 155 crore) and NYK Logistics India Limited (INR 100 crore). Once this hub realises its full investment potential of INR 21.5 billion, the government hopes it will generate employment for more than 3,000 people.[201]

The Japanese Industrial Park in Pune region, on 1,200 acres at the Supa Parner industrial estate in Ahmednagar, around 75 km from Pune has also received interest from about 27 companies.[202] The Gujarat government is also planning to set up a Japanese industrial cluster on a 100-hectare plot in the Mandal region. Already, five mid-sized Japanese companies, including a subsidiary of Mitsubishi Aluminium Company, have lined up investments of INR 500 crores at the park.[203] Industrial park initiatives in the CBIC are also reportedly making progress. In April 2015, Hitachi Automotive Systems set up its new automotive components and systems facility in OneHub Chennai with an investment of INR 313 crores.[204] Two other Japanese companies have also expressed interest in setting up their facilities in OneHub Chennai. These include, Ajinomoto, which will set up a packaging facility and office, and Takasago, which plans to set up a new manufacturing and research and development (R&D) facility.[205]

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200 http://articles.economictimes.indiatimes.com/2015-05-07/news/61902761_1_industrial-townships-nimzs-shinzo-abe

201 http://www.thehindu.com/business/Industry/the-japanese-connection/article4585093.ece

202 http://www.thehindubusinessline.com/economy/japanese-industrial-park-to-be-set-up-near-pune/article5407865.ece

203 http://www.business-standard.com/article/economy-policy/the-lure-of-industrial-parks-114111201486_1.html

204 http://www.thehindubusinessline.com/companies/hitachi-auto-opens-chennai-facility-will-start-manufacturing-electrical-auto-parts/article7109220.ece

205 http://www.business-standard.com/article/companies/3-japanese-firms-to-set-up-facilities-in-onehub-chennai-113111800757_1.html

Kakinada SEZ Private Limited also signed an agreement with Japan's JGC Corporation for co-developing Japanese Oriented Food Processing Park at its Kakinada SEZ in 2015.[206] Also in 2015, Mahindra Group announced its plan to set up an INR 400 crore industrial park in collaboration with Japan's Sumitomo Corporation.[207]

4.4 Smart Cities

During Prime Minister Narendra Modi's visit to Japan in 2014, a "Partner City Affiliation MoU" (memorandum of understanding) was signed to develop Varanasi, as a 'smart city' in cooperation with Kyoto. The MoU provides for cooperation in heritage conservation, city modernisation and cooperation in the fields of art, culture and academics.[208] JICA has also taken up master planning for three "Smart Cities" — Ponneri in Tamil Nadu, Krishnapatnam in Andhra Pradesh and Tumkur in Karnataka — in the Chennai-Bangalore Industrial Corridor.[209]

5. Attractiveness of India as an Investment Destination (JBIC Survey)

5.1 JBIC and JETRO Surveys

A number of factors are promoting investment by Japanese companies in India. According to the Annual Survey conducted by JBIC in November 2014, India was ranked 1st for the first time since 1992 as the most promising country for medium term investment. A total of 229 companies (45.9 per cent) (out of a total of 499 companies surveyed) placed India as the most promising country for medium term investment increasing from 43.6 per cent of companies in 2013 and replacing Indonesia as the most promising country for overseas business. In terms of sectorwise prospects of medium term investments, Japanese companies ranked India as the most promising medium term investment in the field of Chemicals and Electrical equipment and electronics while for Automobiles and general machinery, India ranked 2nd behind Thailand.

On the other hand, India also maintained its 1st position with regard to being the most promising country for long term investment with 55.6 per cent share of votes. Future growth potential of local markets (85.0 per cent) and cheaper labour costs (33.6 per cent) were amongst the top most reasons cited by Japanese companies for placing India as the most promising countries to invest. On the other hand, the constraining factors mentioned were poor infrastructure (51.6 per cent of the respondents) and competition with other companies (36.7 per cent).

A similar trend is seen in the annual survey on business conditions of Japanese companies in Asia and Oceania conducted by JETRO in 2015, wherein about 74.7 per cent of the total respondents (442 respondents) expressed interest in expanding their

206 http://economictimes.indiatimes.com/industry/indl-goods/svs/construction/gmr-infra-japans-jgc-in-pact-to-co-develop-food-processing-park-at-kakinada-sez/articleshow/49309949.cms
207 http://www.newindianexpress.com/states/tamil_nadu/With-Mahindra-Plan-to-Open-Industrial-Park-Ponneri-Aims-to-Better-Oragadam/2015/09/11/article3021778.ece
208 http://www.business-standard.com/article/current-affairs/india-japan-sign-mou-to-turn-varanasi-into-a-smart-city-114083000414_1.html
209 http://www.makeinindia.com/article/-/v/internet-of-things

business in India in the next 1 to 2 years while 23.3 per cent responded no change in their existing plan and 2 per cent responded that they would reduce their business. About 81.8 per cent firms (out of 121) in the wholesale and retail sector expressed interest in expanding their business in India, while 67.5 per cent firms in motor vehicles and motorcycles sector (out of 77) have plans to expand their business in India in the next 1-2 years. Amongst the reasons for expected business expansion in the next 1 to 2 years, sales increase (86.9 per cent) and high growth potential (62.8) were cited as the main reasons for expanding business operation in India by the responding companies. The issues faced by companies in India are wage increase (70.3 per cent), more competition (63.5 per cent), tax burdens (57.1 per cent), complicated customs clearance procedures (56. 9 percent) and difficulty in local procurement of raw materials and parts (52.5 per cent).

While rising labour costs in China is making Japanese investors to look at India, India also stands to gain from the factors which deem the ASEAN countries as unfavourable investment destination such as rising labour costs in Indonesia, social instability in Thailand and civil unrest in Vietnam. On the other hand, India has registered a robust rate of economic growth in the recent past and is expected to grow at the rate of 7.1 per cent to 2020 (as per estimates by EIU). With its fast growing urban population and expanding middle class, India is placed as an important market in terms of potential demand.

5.2 The Make in India Initiative

Analysts have felt that the new and visionary policy regimes both in India and Japan provide immense opportunities for harnessing the potential which exists between these two countries. During his visit to India in December 2015, Japanese Prime Minister Abe commended Prime Minister Modi's initiatives such as "Make in India," "Digital India," "Skill India," "Clean India" and "Smart City" and expressed his intention to support India's efforts by sharing its advanced skills and technologies and through active mobilisation of Japanese public and private sector involvement, including Official Development Assistance (ODA).[210]

Prime Minister Modi's "Make in India" scheme has also been well received by many Japanese companies who are looking at India as a manufacturing hub to export products to other parts of the World. In this context, the new 1.5 trillion Yen, "Japan-India Make-in-India Special Finance Facility" to be launched by Nippon Export and Investment Insurance (NEXI) and Japan Bank for International Cooperation (JBIC) announced by Prime Minister Abe could play an important role. It aims to promote direct investment of Japanese companies and trade from Japan to India and to support their business activities with counterparts in India, including development of necessary infrastructure, and to help materialise Make-in-India policy of the Government of India.[211]

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210 http://www.mea.gov.in/bilateral-documents.htm?dtl/26176/Joint_Statement_on_India_and_Japan_Vision_2025_Special_Strategic_and_Global_Partnership_Working_Together_for_Peace_and_Prosperity_of_the_IndoPacific_R

211 http://www.mea.gov.in/incoming-visit-detail.htm?26176/Joint+Statement+on+India+and+Japan+Vision+ 2025+Special+Strategic+and+ Global+Partnership+ Working+Together+ for+Peace+and+Prosperity+ of+the+IndoPacific+Region+and+the+WorldDecember+12+2015

5.3 Japan plus Facilitation Mechanism

In October 2014, Department of Industrial Policy and Promotion (DIPP) set up "Japan PLUS" a special management team to facilitate and fast track investment proposals from Japan. "Japan Plus", comprises of four representatives from Government of India and three representatives from Government of Japan. As for the latter, the Japanese Government have nominated one from METI (Ministry of Economy, Trade and Industry), one from JETRO and one from Aichi Prefecture. Japan plus also provides assistance to a Core-group under the chairmanship of Cabinet Secretary with Secretaries of 17 Ministries/Departments to ensure that investments from Japan as envisaged in India–Japan Investment Promotion Partnership are facilitated in various sectors and opportunities of investment and technology transfer are fully exploited.[212]

"Japan Plus" has been involved in all aspects of investment promotion such as research, outreach, promotion, facilitation and aftercare. The team also supports the Government of India in initiating, attracting, facilitating, fast tracking and handholding Japanese investments across sectors and is also responsible for providing updated information on investment opportunities across sectors, in specific projects and in industrial corridors in particular. In addition, the "Japan Plus" team is mandated to identify prospective Japanese companies, including, Small and Medium Enterprises (SMEs) and facilitate their investments in India.[213] According to reports, Japan Plus assists 20 Japanese companies per month on an average.[214] Prime Minister Shinzo Abe positively appraised the work of "Japan Plus" and expressed strong hope that investment-related assistance, guidance and support extended by Japan Plus will become even more effective and efficient through enhancing coordination with stakeholders. He appreciated the creation of "Core Group" chaired by Cabinet Secretary to coordinate and closely monitor the process to ensure that investments from Japan as envisaged in India-Japan Investment Promotion Partnership are facilitated.[215]

6. JCCII's Annual List of Issues Raised

Numerous regulations and jurisdictions, complex taxation and inadequate infrastructure are often cited as problems faced by Japanese companies in India, even as India remains high on the list of potential countries for investment by Japanese companies. The Japanese Chamber of Commerce and Industry in India (JCCII) has been actively engaged with the government of India to take up issues faced by Japanese companies in India. JCCII submits its suggestions to the Government of India each year which and these have related to need for taxation reforms such as improvement in the provisions for "roll back" to avoid double taxation, banking sector reforms such as relaxation in External Commercial Borrowing (ECB) and allowing foreign banks to open branch offices in the

212 http://pib.nic.in/newsite/PrintRelease.aspx?relid=110398
213 http://pib.nic.in/newsite/PrintRelease.aspx?relid=110398
214 http://dipp.nic.in/japanplus/aboutus.aspx
215 http://www.ndtv.com/india-news/joint-statement-on-india-and-japan-vision-2025-full-text-1254133

metropolitan area more promptly. JCCII has also referred to reforms needed in the area of intellectual property rights such as accelerated examination system for patent applications and relaxation of the scope of Foreign Filing Licensing (FFL) and infrastructure.

7. Trends in India's Outward FDI to Japan

Unlike Japanese investments in India, Indian investments in Japan have not seen much growth. It can be seen from Table A.3.5 that India's outward FDI to Japan remained as low as less than US$ 1 million upto 2006-07. There was some increase in 2007-08 to US$ 42.05 million. The year 2008-09 also saw some investments by India in Japan with the total OFDI stock increasing to US$ 74 million. However, on the whole, Indian investments in Japan have been very low accounting for a mere 0.07 per cent of India's total OFDI in other countries.

Statistics for Japan's net inflows from India (BOP basis) are presented in Table A.3.6 which shows that India's investment in Japan was practically zero up until 2006. The period thereafter shows some growth, even as the volume still remains low. Indian investment forms just 0.06 per cent of Japan's total OFDI stock for the entire period from January 2000 to June 2015.

Looking at sectors of Indian investments, two Indian banks, Bank of India and State Bank of India have branches in Japan. Bank of India was the first Indian bank to open a branch in Japan and commenced operations on 17 May 1950 in Tokyo. A second branch was opened on 20 October 1950 in Osaka.[216] State Bank of India opened its first Japan branch in Tokyo in 1980 and in Osaka

Table A.3. 5: India's Outward FDI to Japan

Year	India's OFDI to Japan (in US$ million)		India's total OFDI (in US$ million)		Share of Japan in India's total OFDI Stock
	Flow	Stock	Flow	Stock	In %
2001-02	0.67	0.67	999.29	999.29	0.07
2002-03	0.29	0.96	1848.35	2847.64	0.03
2003-04	0.04	1.00	1564.08	4411.72	0.02
2004-05	0.08	1.08	1991.77	6403.49	0.02
2005-06	0.76	1.84	7834.61	14238.1	0.01
2006-07	1.06	2.90	13236.81	27474.91	0.01
2007-08	42.05	44.95	18446.72	45921.63	0.10
2008-09	29.44	74.39	16327.68	62249.31	0.12
2009-10	1.16	75.55	12303.58	74552.89	0.10
2010-11	2.16	77.71	16402.66	90955.55	0.09
2011-12	9.92	87.63	30824.12	121779.7	0.07

Source: "Outward Direct Investment from India: Trends, Objectives and Policy Perspectives", Occasional paper no. 165, Export Import Bank of India.

[216] http://www.boijapan.com/english/about.aspx

Table A.3. 6: Japan's FDI Inflows from India (Balance of Payments basis, net and flow)			
Year	Japan's Inward FDI from India	Total inward FDI into Japan	Share of India in Japan's Total Inward FDI
2000	0.00	8225.90	0
2001	0.00	6190.71	0
2002	-0.82	9089.16	0
2003	0.00	6237.62	0
2004	0.00	7808.14	0
2005	1.40	3222.97	0
2006	-0.56	-6788.76	0
2007	3.39	22180.59	0.01
2008	0.86	24550.30	0.01
2009	13.98	11839.41	0.02
2010	4.25	-1358.90	0.02
2011	9.17	-1701.79	0.04
2012	18.84	1761.43	1.07
2013	18.04	2358.38	0.76
2014	-8.48	9077.20	
2015 *	24.34	2622.71	0.92

Source: Japan External Trade Organisation.
Note: *Figures from January 2015 to June 2015.

in 1984.[217] The nature of the two banks' activities have been largely India centric with Bank of India also involved in routing JICA's development cooperation funding. The New India Assurance Company also set up its operations in Japan way back in 1950 and has seven branches countrywide. It is involved in non-Life General Insurance and unlike Indian banks in Japan, also offers retail insurance services.

A few Indian pharmaceutical companies also invested in Japan in the 2000s. In 2002, Ranbaxy Laboratories acquired a 10 per cent equity stake in Japan's Nihon Pharmaceutical Industry Co Ltd (NPI), a subsidiary of Nippon Chemiphar Co Ltd (NC).[218] In 2005, Ranbaxy increased its stake in Nihon Pharmaceutical Industry to 50 per cent.[219] However in 2009, Ranbaxy Laboratories sold its 50 per cent stake in the joint venture Nihon Pharmaceutical Industry (NPI) to its partner Nippon Chemiphar.[220]

In 2007, the Indian pharmaceutical company Lupin Pharma acquired 80 per

[217] http://www.japantimes.co.jp/news/2010/01/21/business/state-bank-of-india-bullish-on-japan-business/
[218] http://www.telegraphindia.com/1020927/asp/business/story_1239299.asp
[219] http://www.business-standard.com/article/companies/ranbaxy-hikes-japanese-jv-stake-to-50-105111100002_1.html
[220] http://articles.economictimes.indiatimes.com/2009-12-09/news/28451513_1_nippon-chemiphar-nihon-pharmaceutical-industry-daiichi-sankyo-and-ranbaxy

cent stake in Kyowa Pharmaceutical Industry (Kyowa), one of the top ten generic pharmaceutical companies in Japan, for an undisclosed amount. The company further strengthened its base in the Japanese market when it bought Japan's I'rom Pharmaceutical Company in 2011, to enter the generic injectables segment. I'rom had a significant presence in the fixed-rate treatment hospitals segment in Japan.[221] More recently, in 2014, the company has also entered into a strategic JV agreement with the Japanese pharmaceutical company Yoshindo to create a new entity YL Biologics (YLB), for conducting clinical development of certain Biosimilars, including regulatory filing and obtaining marketing authorisation in Japan.[222]

In 2011, Zydus Cadila, the Ahmedabad-based pharma company, acquired 100 per cent stake in Nippon Universal Pharmaceutical, a privately held company headquartered in Tokyo.[223] However, in 2014 the company decided to exit Japan, without divulging any further detail.[224]

More recently, Indian automotive company Mahindra & Mahindra Ltd. (M&M), part of the Mahindra Group entered into a strategic partnership with Mitsubishi Heavy Industries Ltd. (MHI) headquartered in Tokyo in the agricultural machinery field. As per the agreement signed in October 2015, Mahindra will invest JPY 3 billion (US$ 25 million) for acquiring 33 per cent voting stake in MHI subsidiary, Mitsubishi Agricultural Machinery Co. Ltd. (MAM) which has been renamed as Mitsubishi Mahindra Agricultural Machinery Company.[225]

In the IT sector, currently there are 80 plus Indian IT companies who are present in Japan. These are companies who have established themselves globally and are providing services to their global clients for their operations in Japan such as multinational banks or major insurance companies or other firms.[226] One of the first Indian companies to invest in Japan was Delhi-based Nucleus Software which set-up a 100 per cent subsidiary in Japan in 2001.[227]

In 2014, Tata Consultancy Services Ltd (TCS) merged its Japanese businesses with Mitsubishi Corp., Japan's largest trading firm. TCS signed agreements with Mitsubishi to merge TCS Japan, Nippon TCS Solution Center Ltd (NTSC) and IT Frontier Corp (ITF), a unit of Mitsubishi. TCS holds 51 per cent in the merged entity while Mitsubishi holds the rest. NTSC is a venture between Mitsubishi and TCS Japan

221 http://www.reuters.com/article/lupin-irom-acquisition-idUSL3E7MH16720111117
222 http://www.thehindu.com/business/Industry/lupin-forms-joint-venture-with-japans-yoshindo/article5940762.ece
223 http://www.business-standard.com/article/companies/zydus-cadila-buys-nippon-pharma-107042001108_1.html
224 http://articles.economictimes.indiatimes.com/2014-01-28/news/46735096_1_cadila-pharma-japanese-market-local-pharma-companies
225 http://www.mahindra.com/news-room/press-release/1432214439
226 http://computer.financialexpress.com/columns/why-indian-it-companies-are-unable-to-leverage-japans-it-market-potential/1753/
227 http://articles.economictimes.indiatimes.com/2002-06-03/news/27361599_1_nucleus-software-managing-director-vishnu-dusad-shinsei-bank

that was launched in 2012.[228] The company has also embarked on a large cultural and language integration programme with a special unit in Pune dedicated to the Japan business.

Another Indian IT major, WIPRO also struck a strategic partnership with Takeda Pharmaceutical Company Ltd., the largest pharmaceutical company in Japan in 2014. WIPRO will be the primary provider of IT infrastructure management services covering all of Takeda's operations worldwide.[229] This is a multi-year deal reportedly worth over US$ 400 million for its duration.[230]

Infosys won an order in September 2014 from Japan's Ryohin Keikaku Co., Ltd. owner of Muji brand stores, to implement the Indian company's big data software platform Interact Edge. The software is expected to help Muji generate higher sales by enabling the retailer to make personalised product recommendations to over two million customers.[231]

During the Japanese PM's visit to India in December 2015, both sides stressed on the importance of two way investment flows between India and Japan. In this regard, the Japanese side expressed the intention of establishing a new mechanism, "Japan-India IoT Investment Initiative," to promote investment in Internet of Things (IoT) related area from India to Japan.[232]

8. Conclusions

While there are no additional market opening measures under CEPA, other than committing to the extant policy of the two governments, CEPA does provide for greater security of investments and a liberalised framework for trade in goods and services, that enables an environment conducive for investment growth. The steady rise in the number of Japanese companies in India after the CEPA came into force from about 812 in 2011 to 1209 in 2014 (upto October) as well as the fact that the Japanese companies place India as the top most destination for potential investment (for both medium and long term investment) indicates that CEPA has had a positive impact. Reforms towards further ease of doing business as well as towards establishing a facilitating infrastructure would help in attracting even more Japanese companies to invest in India. If the several Japanese industrial townships under implementation and the industrial corridors taking shape come to operation they can catapult Japanese investments in India to a much higher level.

India's investments in Japan have been quite limited and there is no indication that this situation in likely to change soon.

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