



DELHI POLICY GROUP

RIS-AIC Seminar on India-Japan CEPA **October 6, 2016**

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Prevailing Trends in FTAs/Regional Integration/Mega Regionals

- **With economic headwinds in the global economy, world trade is falling. Political repercussions in advanced economies are raising prospects for protectionist trade barriers which can depress growth further. Meanwhile, the WTO is inactive, plurilateral and mega regional frameworks are in favour. These will have a major impact on future patterns of global trade and investment.**
- **The 1991 liberalisation era has brought great dividends to India's economy. Indian industry has been transformed and is today much more robust and competitive, though still lagging in manufacturing. Staying the course will enhance competitiveness.**
- **Factors driving regional integration: markets, trade and investment interlinkages, value chains, growth potential and policy integration.**

- **Purpose of FTAs:**

- **Trade and FDI expansion between and among FTA members.**
- **Incentivizing domestic reform on sensitive political economy issues.**
- **Welfare gains from added economic growth.**
- **Policy integration, harmonisation of standards, business facilitation.**
- **Strategic consolidation: EU, NAFTA, RCEP, TPP, TTIP, FTAAP etc.**
- **The East Asian economies, our most important trade partners, have already transitioned to mega regionals like RCEP and TPP.**
 - **Rule taking versus rule making.**
 - **Rules are being set in frameworks which exclude India (APEC, TPP).**
- **India-ASEAN FTA, India-Japan CEPA, were both driven by strategic interests.**
 - **Finance Minister Manmohan Singh visited Southeast Asia in 1991 to understand the drivers of the East Asian economic miracle.**
 - **Look East Policy was launched.**
 - **PM Vajpayee's mandate for negotiating the India-ASEAN FTA, 2003.**
 - **India-Japan JSG on CEPA, 2005-2006.**
- **Trade policy mismatch with political directive: continuing aspiration versus moderation debate on trade policy issues in India.**
 - **Seven years to negotiate the India-ASEAN FTA, five for India-Japan CEPA.**

- **Debate lingers, even non-binding standards like those of APEC are being regarded with caution, benefit of FTAs is being questioned.**
- **India's FTAs offer partial liberalization; share of trade with FTA partners is among the lowest (India 15%, Japan 24%, Singapore 80%).**
- **Growing disconnect between India's proactive Act East strategy and continuing restrictive approach towards regional trade and investment liberalization.**

RIS Report on India-Japan CEPA

- **Congratulate Amb. Seshadri, thank him for consulting before commencing work and after completing report.**
- **Report reaffirms the logic of natural complementarities between India and Japan in economic factors and strengths:**
 - **This logic is gaining ground with Abenomics and PM Modi's Make in India initiatives.**
- **Post-CEPA, India's exports to Japan rose at about the same level as overall exports (58%).**
 - **75% under zero-tariff regime.**
 - **Rest 25%: Gains in seafood, garments, pharma, leather etc.**
 - **Further gains likely only with more competitive capacities in these areas.**
- **Post-CEPA, imports from Japan up 49%, lower than the 55% rise in overall imports.**
 - **Steel, machinery.**
- **Rising CEPA utilization as seen by COOs.**
- **\$5 billion trade deficit (\$12 billion/\$7 billion), but needs to be seen together with investment for considering overall balance.**
- **Services trade: \$3.3 billion (negative balance, \$0.7 bn).**

- **Japan making inroads in banking and insurance, 14% of FDI stock in India.**
- **Indian IT yet to penetrate Japan, less than 1% of market share.**
- **Visa liberalisation, MRAs, nurses and healthcare workers (no tangible impact likely on merchandise trade deficit).**
- **Investments: Japanese companies in India have doubled to 1209 (transport/pharma/services/electrical/metals).**
 - **\$21 bn in FDI stock, 4th largest investor with 7.5% share, steady FDI inflows of around \$2.5 bn each year.**
 - **Will rise further with Japan funded infrastructure projects, Japan industrial townships etc.**
- **Greater regulatory cooperation. Harmonisation of standards and trade facilitation are critical for cutting transaction costs.**
- **Creating a positive perception of CEPA/FTAs, developing positive approach for mega regionals like RCEP.**

Japan's approach to trade and investment and the India opportunity

- **Stellar role in promoting regional economic integration in Asia over the past four decades.**
- **Japan's economic growth has been and is increasingly dependent on interaction with Asia Pacific economies.**
 - **Trade and FDI in the machinery sector, parts and components.**
 - **Fragmentation strategy/supply chains across East/Southeast Asia.**
 - **ASEAN+1 FTAs**

- **Pursuing further trade and investment liberalisation through TPP and RCEP.**
 - **Seven countries involved in both.**
 - **For Japan, both are complementary pathways to FTAAP.**
 - **Projected GDP welfare gains of 2% for Japan.**
- **India's share in Japan's trade remains lower than India's share in global trade.**
- **However, Japanese investments are steadily expanding.**
 - **Transportation, finance and insurance, telecom etc.**
 - **Manufacturing investment 72.21% of FDI, major job creation impact.**
- **FDI to India remains of high importance for Japan, but problems remain (infrastructure, tax and legal, regulatory uncertainty).**
- **JBIC/NEXI assistance for FDI promotion.**
- **ODA: India largest recipient – around 9% of total since 2007.**
- **Overall, \$35 billion in public and private funding for India, 2014-2019. Remains on course with HSR project being fast tracked.**
- **RCEP and Look West.**
 - **Global value chains (50% of world trade).**
 - **Make in India/export to Africa.**

Conclusions

- **Japan is India's most significant economic partner: expanding FDI, encouraging India's regional economic integration and participation in supply chains, building economic infrastructure and manufacturing hubs for both Act East and Look West.**

- **India needs to reconsider its approach towards regional economic integration and mega regionals. An efficient manufacturing sector which produces trading strength in goods requires deeper and wider domestic reform.**
 - **A clear prioritization of RCEP negotiations and APEC membership to derive maximum gains from regional economic integration needs consideration.**
 - **If India is to become a leading influencer of regional security, it must also actively seek to become an important trade and economic partner of the world's most dynamic economies which lie to our east.**
 - **India needs to learn from Japan's example: synergized role of government and private sector as well as institutions – JETRO, JBIC, NEXI, JICA. So the challenge is, can MOC&I, MOF and MEA develop similar synergies to promote trade and investment?**
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