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Discussion Paper # 186



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India-Japan Comprehensive Economic Partnership Agreement (CEPA)

Some Implications for East Asian Economic Regionalism and RCEP

Ram Upendra Das*

Abstract: With the shift in the centre of economic gravity towards Asia, the Regional Comprehensive Economic Partnership (RCEP) of the ASEAN+6 countries has assumed a new meaning. The new mega-groupings in the form of a Trans-Pacific Partnership (TPP) with an attempt to resurrect the APEC, the Trans-Atlantic Trade and Investment Partnership (TTIP), the intermittent moves to push for ASEAN+3 partnership at a faster pace through the Chiang Mai Initiative Multilateralisation (CMIM) Agreement, the proposed trilateral East Asian FTA among Japan, China and South Korea – all these initiatives and forums exclude India. It is, in this sense, quite crucial that a grouping like the RCEP becomes fully functional and dynamic. This paper, situates the India-Japan economic interactions, against this backdrop, and brings out important insights from the India-Japan Comprehensive Economic Partnership Agreement (CEPA). The paper examines modalities of substantial trade coverage, sensitive lists, and formulation of rules of origin with a developmental angle in the CEPA. These could be crucial, especially in terms of providing a negotiating template for the RCEP and broader East Asian regionalism. However, it may be mentioned that India's partnership with Japan will have to be viewed not in isolation but in the context of India-China and India-US partnerships as well.

Keywords: Regional Economic Integration; RCEP; East Asia; India-Japan

Introduction

India has been rather late in adopting the policy of bilateral and regional free trade agreements. The two main pillars of India's regional trade agreements have been in terms of her engagements in the South Asian region and in launching the *Look East Policy* in the early 1990s. Until the early 2000s, India remained a peripheral player in the South-east and

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East Asian region. With the Indian growth story and the rising perception of India being an emerging economy, there has been a gradual change in the way India has been viewed in the region.

This led to India's engagement with ASEAN as a grouping and with individual ASEAN members like Thailand, Singapore, Malaysia and Indonesia. India also initiated closer economic partnerships with Japan, South Korea, Australia and New Zealand. These engagements are at different stages of study, negotiations and implementation.

However, with the exception of the India-ASEAN partnership at the Summit level, India has been excluded from most other formal arrangements involving the East Asian region, be it the APEC, ASEAN+3 formation or the Asia-Europe Meeting. It was in 2005 that India became a member of the East Asia Summit (EAS) – the ASEAN+6 formation, which included the ASEAN-10 plus Japan, China, South Korea, India, Australia and New Zealand. The EAS has made progress on various issues along with a Track II study on a Comprehensive Economic Partnership in East Asia (CEPEA) among EAS members that has been submitted to its leaders.

With the shift in the centre of economic gravity towards Asia, the Regional Comprehensive Economic Partnership (RCEP) of ASEAN+6 countries has assumed a new meaning. The new mega-groupings in the form of a Trans-Pacific Partnership (TPP) with an attempt to resurrect APEC, the Trans-Atlantic Trade and Investment Partnership (TTIP), the intermittent moves to push for ASEAN+3 partnership at a faster pace through the Chiang Mai Initiative Multilateralisation (CMIM) Agreement, the proposed trilateral East Asian Free Trade Agreement (FTA) among Japan, China and South Korea – all these initiatives and forums exclude India. It is, in this sense, quite crucial that a grouping like the RCEP becomes fully functional and dynamic. Within this, the India-Japan partnership can be crucial especially in terms of providing a negotiating template for the same.

In this context, the signing and implementation of the India-Japan CEPA has an important role to play, especially in terms of providing a decisive leadership to the entire East Asian economic integration process, including negotiations at the technical level.

Bilateral trade and investment relations between Japan and India have strengthened in recent years; however, they have remained below potential. Recognising that bilateral economic relations between India and Japan need to be augmented, the Prime Ministers of the two countries, during the visit of Prime Minister Koizumi of Japan to India in April 2005, directed that the India-Japan Joint Study Group (JSG) be launched by June 2005. The group was to submit its report within a year, focusing on measures required to expand trade in goods, services, investment flows and other areas of economic relations between the two countries. The JSG, which submitted its report to the two Prime Ministers in 2006, recommended that the Governments of Japan and India launch negotiations to develop an Economic Partnership Agreement (EPA)/ Comprehensive Economic Partnership Agreement (CEPA), within a reasonable period of time. During Prime Minister Dr. Manmohan Singh's visit to Tokyo in October 2010 for the Annual Bilateral Summit, the two Prime Ministers signed a Joint Declaration on the conclusion of the CEPA between the two countries. The CEPA got implemented in August 2011.

Against this backdrop, this paper examines the basic question of what role the India-Japan partnership could play in the pursuit of pan-Asian economic integration, which is crucial for India since other economic co-operation mechanisms exclude India. The paper does this by first spelling out briefly the evolution in India's Look East Policy in an attempt to connect it to the pan-Asian economic integration. The paper, thereafter, presents an analysis of the India-Japan CEPA in terms of its existing framework to provide insights into some of the contentious issues. This is particularly important for future progress in negotiations on similar issues in the EAS. Considering that there is consensus between

India and Japan on issues of trade coverage of FTAs, rules of origin, etc., the India-Japan CEPA could help facilitate any negotiations on these subjects in the RCEP. The RCEP process is analysed subsequently to serve as a background to highlight the implications of the India-Japan CEPA for the RCEP negotiations by way of serving as a negotiating template. The paper concludes with some observations on the possible negotiating approach in RCEP.

India's Engagements with the East¹

India embarked upon wide-ranging economic reforms in 1991 that focused on liberalisation and internal reforms. It was around the same time that India actively promoted the inclusion of an economic agenda in SAARC to help the South Asian region co-operate to achieve developmental objectives like poverty reduction. India also propounded the *Look East Policy* for closer and more formal interaction with the economic growth centres of the ASEAN region. India became a sectoral dialogue partner of ASEAN and, by 1995, it became a full dialogue partner. India also became ASEAN's summit-level partner in the early 2000s. It was after this that India's Look East Policy gained momentum.

This was manifested in the launching of FTA negotiations with ASEAN as a group and some individual ASEAN countries. Besides, India also became a member of the East Asia Summit, the ASEAN+6 grouping. Around the same time, India also intensified its FTA negotiations with two major Asian economic powers, viz. Japan and South Korea. This coincided with the unilateral opening of India's trade and investment regimes, resulting in increased global integration and increased growth dynamism. The rapid increase in purchasing power, coupled with narrowed tariff differences, was seen as a big opportunity to tap India's production and investment space through the instruments of trade and investment and attracted countries from South-east and North-east Asia. These factors together contributed to strengthening India-ASEAN bilateral economic co-operation since 2000 or so. With the initiation of

India's *Look East Policy* in 1991, it was natural for ASEAN countries to take India a bit more seriously.

After long-drawn negotiations, an agreement was reached and an India-ASEAN trade in goods FTA was signed at the India-ASEAN Ministers meeting in Da-Nang in 2009. The FTA got implemented on 1 January 2010 with ratification pending in several ASEAN countries. Subsequently, India-ASEAN trade in services and investment agreement became the focus of negotiations; these are expected to conclude shortly.

What is clear is that India and ASEAN have intensified their bilateral economic co-operation considering that there is enormous potential to augment trade in goods and services and cross-investment flows between India and ASEAN. In sum, it may be highlighted that what began as India's look east policy has culminated into ASEAN's look west policy as well. This is important to realise as this will have subtle and important implications for India's role and presence in the pan-Asian regional economic integration process (say the EAS), a fact often not taken into account.

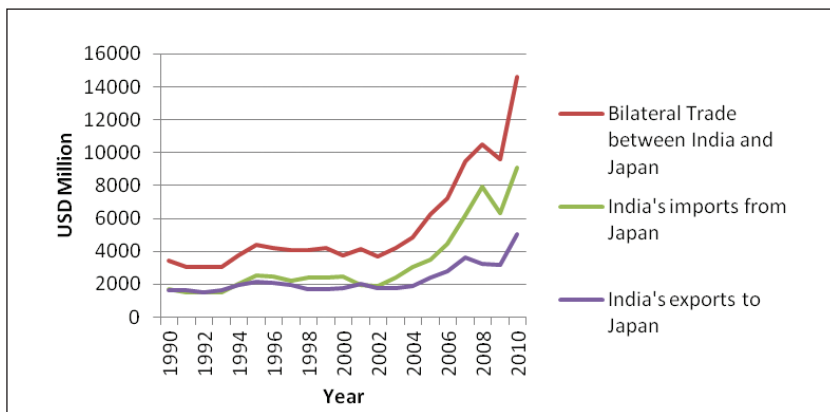
One of the outcomes of India's look east policy was that it became a member of the East Asia Summit (EAS), which includes the countries of ASEAN-10 along with China, Japan, South Korea, India, Australia and New Zealand (ASEAN+6). More recently, the US and Russia have been included in the EAS framework, making the grouping as ASEAN+6+2. It is in this context that this paper argues the importance of the India-Japan economic partnership. In doing so, analysis of some elements of their bilateral economic relations, including an analysis of CEPA, is warranted.

Economic Dynamism between India and Japan

India-Japan bilateral trade relations have strengthened over the years. A meagre USD3.5 billion in 1990, bilateral trade stagnated until 2003-04 before it made a quantum jump, reaching the substantive figure of USD14.6 billion in 2010. The rise is primarily because of India's imports

from Japan; however, Indian exports have also shown dynamism in recent years (Figure 1). This indicates that there is further potential for increasing India’s exports to Japan. This point would be clearer with reference to Tables 1 and 2.

Figure 1: India-Japan Trade Dynamics



Source: Based on IMF, *Direction of Trade Statistics* (2011).

It is discernible from Tables 1 and 2 that Japan is more important for India as a trade partner than India is to Japan. This is because Japan’s exports and imports to India as a proportion to Japan’s total exports and imports vis-à-vis the world is much lower (Table 1: 1.17 per cent and 0.82 per cent in 2010) than similar proportions for India (Table 2: 2.32 per cent and 2.69 per cent in 2010).

However, there is an interesting insight emanating from these tables from a time series analysis. Japan’s exports to India as a percentage of its total exports have increased from 0.59 (1990) to 1.17 (2010) and its imports from India as a percentage of its total imports have slightly declined from 0.88 (1990) to 0.82 (2010).

On the other hand, India’s exports to Japan as a percentage of its total exports declined substantially from 9.30 (1990) to 2.32 (2010) and

its imports from Japan as a percentage of its total imports declined from 7.51 (1990) to 2.69 (2010).

Table 1: Japan's Exports (Imports) to (from) India as Proportion of Japan's Total Exports (imports)

Year	Japan's exports to India (USD Million)	Japan's Total exports to World (USD Million)	Japan exports to India as per cent of Japan's total exports	Japan's imports from India (USD Million)	Japan's Total imports from World (USD Million)	Japan imports from India as per cent of Japan's total imports
1990	1711.43	288000	0.59	2074.75	235361	0.88
1991	1525.06	315143	0.48	2185.65	236682	0.92
1992	1488.18	340094	0.44	2035.10	232965	0.87
1993	1536.04	363061	0.42	2286.90	241795	0.95
1994	2048.50	395408	0.52	2650.21	274465	0.97
1995	2542.90	443536	0.57	2916.81	336254	0.87
1996	2436.48	411925	0.59	2852.01	349731	0.82
1997	2207.94	421865	0.52	2657.73	338772	0.78
1998	2409.34	388125	0.62	2177.24	280910	0.78
1999	2426.28	419705	0.58	2246.01	310816	0.72
2000	2488.47	478542	0.52	2636.70	379624	0.69
2001	1939.62	403652	0.48	2212.04	349106	0.63
2002	1868.94	416969	0.45	2090.14	337195	0.62
2003	2395.94	472063	0.51	2173.97	382973	0.57
2004	3044.30	566137	0.54	2611.30	454857	0.57
2005	3523.68	595138	0.59	3193.71	515223	0.62
2006	4486.01	647182	0.69	4117.08	578724	0.71
2007	6165.45	714883	0.86	4158.98	621887	0.67
2008	7910.27	782859	1.01	5270.30	762453	0.69
2009	6331.73	581579	1.09	3729.28	551928	0.68
2010	9051.93	771720	1.17	5683.30	694028	0.82

Source: Based on IMF, *DOTS*, 2011.

Thus, two important insights are: (i) at present, Japan is a more important partner for India both in the export and import baskets than India is for Japan; (ii) importance of India in Japanese exports have increased while in imports it is almost stagnant but Japan has declined in importance for India over the period under consideration in terms of both exports and imports. However, in absolute terms the bilateral trade relations have strengthened over the years.

What does this mean? It simply means that overall trade dynamics and aggregate absolute trends could hide some of the nuances that are evident when data is analysed at a disaggregated level and that greater policy efforts are needed to increase each other's relative importance in the other's trade basket. This backdrop only enhances the importance of India-Japan CEPA which includes provisions for greater market access for trade in goods. We will examine whether the CEPA has been able to address this issue or not.

Table 2: India's Exports (Imports) to (from) Japan as Proportion of India's Total Exports (Imports)

Year	India's exports to Japan (USD Million)	India's Total exports to World (USD Million)	India exports to Japan as per cent of India's total exports	India's imports from Japan (USD Million)	India's Total imports from World (USD Million)	India imports from Japan as per cent of India's total imports
1990	1656.00	17813.10	9.30	1800.83	23991.4	7.51
1991	1653.96	17873.80	9.25	1364.30	19509.4	6.99
1992	1522.83	19233.00	7.92	1504.20	23196.6	6.48
1993	1656.54	20990.50	7.89	1376.47	21268.8	6.47

Table 2 continued...

Table 2 continued...

1994	1923.53	24196.60	7.95	1839.88	25485.8	7.22
1995	2130.4	30538.80	6.98	2234.33	34489.5	6.48
1996	2077.97	32326.20	6.43	2133.52	36054.8	5.92
1997	1925.35	34624.40	5.56	2155.52	40896.6	5.27
1998	1713.63	33667.60	5.09	2385.50	42162.4	5.66
1999	1677.05	35923.20	4.67	2518.28	47900.7	5.26
2000	1767.23	42627.30	4.15	2015.60	50336.4	4.00
2001	2010.95	45432.00	4.43	2133.59	59140.9	3.61
2002	1775.63	50522.00	3.51	1913.86	58912.5	3.25
2003	1747.97	61130.20	2.86	2459.84	74078.1	3.32
2004	1910.52	75386.70	2.53	2921.39	99838.1	2.93
2005	2392.92	98212.10	2.44	3854.61	139888	2.76
2006	2767.34	120550.00	2.30	4461.98	176669	2.53
2007	3606.01	153775.00	2.34	5891.33	235025	2.51
2008	3214.07	177700.00	1.81	7285.74	281467	2.59
2009	3186.04	165204.00	1.93	6385.90	257665	2.48
2010	5033.52	217341.00	2.32	9572.57	356310	2.69

Source: IMF, *DOTS*, 2011.

Foreign direct investment from Japan has increased from USD1.2 billion in 2009-2010 to USD1.6 billion in 2010-11. However, in terms of cumulative FDI, inflows from Japan over the period April 2000-February 2011 amount to USD5.5 billion, which is quite low, with Japan being sixth among the top ten source countries for FDI inflows into India with a share of just 4.07 per cent (Table 3).

Table 3: Share of Top Investing Countries FDI Equity Inflows

Rs. Crores*

Ranks	Country	2009-10 (April- March)	2010-11 (April- March)	2011-12 (for April 2011)	Cumulative Inflows (April '00-April '11)	percentage to total Inflows (in terms of USD)
1.	Mauritius	49,633 (10,376)	31,855 (6,987)	4,332 (976)	247,092 (55,203)	42%
2.	Singapore	11,295 (2,379)	7,730 (1,705)	5,214 (1,175)	58,090 (13,070)	10%
3.	U.S.A.	9,230 (1,943)	5,353 (1,170)	356 (80)	42,898 (9,529)	7%
4.	U.K.	3,094 (657)	3,434 (755)	19 (4)	29,451 (6,643)	5%
5.	Netherlands	4,283 (899)	5,501 (1,213)	172 (39)	25,799 (5,739)	4%
6.	Japan	5,670 (1,183)	7,063 (1,562)	1,043 (235)	25,001 (5,511)	4%
7.	Cyprus	7,728 (1,627)	4,171 (913)	754 (170)	22,702 (4,982)	4%
8.	Germany	2,980 (626)	908 (200)	231 (52)	13,607 (3,051)	2%
9	France	1,437 (303)	3,349 (734)	977 (220)	11,244 (2,484)	2%
10.	U.A.E.	3,017 (629)	1,569 (341)	91 (21)	8,683 (1,910)	1%
Total FDI Inflows		123,120 (25,834)	88,520 (19,427)	13,846 (3,121)	594,569 (132,837)	-

Source: Based on GoI, DIPP, 2011.*Note:* * Figures in parentheses are in USD Million.

FDI inflows from Japan account for around 27 FDI projects. Some recent data on the major FDI projects are given in Table 4. These figures suggest that FDI is concentrated in the automobile sector. A broad inference of this would be that a conscious effort is needed for FDI-diversification in the Indian economy vis-à-vis Japanese FDI. It may be mentioned that research studies have found that Japanese FDI is determined more by its trade flows (Goldar and Ishigami 1999) and cultural affinity with, and infrastructure in the host country (Kumar 2002) than by the size of the local market and degree of openness. Given this, funding support for the Delhi-Mumbai Industrial Corridor (DMIC) project by Japan through public and private finance of around USD4.5 billion needs to be highlighted. Japanese support for the development of infrastructure in other areas too would be crucial to expand the scope of co-operation.

Table 4: Major Japanese FDI Projects in India

Maruti-Suzuki	USD2564 million
Toyota Motor Corporation	USD385 million
MCC PTA	USD364 million
Nissan Motor	USD231 million
Honda Siel Cars	USD175 million
Asahi India Glass	USD111 million

Source: Embassy of Japan in India.
(<http://www.in.emb-japan.go.jp/Japan-India-Relations/JapanActiveEngagement2007.html>)

India-Japan economic co-operation is not limited to trade and investment co-operation alone. The recent initiative of a bilateral currency swap arrangement to the tune of USD15 billion, given the hard-currency liquidity crunch due to global crisis, is an important development, pointing to the fact that the canvas of co-operation is wide and the potential immense.

This is also manifested in the fact that Japan has been extending bilateral loan and grant assistance to India since 1958. Japanese bilateral loan, grant aid and technical co-operation assistance to India is received

through JICA (Japan International Co-operation Agency). Since 2003-04, India has become the largest recipient of Japanese Official Development Assistance (ODA) loans. By 2010, around 58 projects were being implemented with Japanese loan assistance (GOI 2012). The loan amount committed for these projects was USD15 billion (i.e. Yen 1109.781 billion). The cumulative Japanese ODA loan commitment to India in 2010 was USD41 billion (i.e. Yen 3118.42 billion). The priority sectors for ODA loan are infrastructure sectors like power, roads, bridges, water supply and sanitation, urban transport and environment and forests (see also Nataraj 2010).

We now make an attempt to analyse the India-Japan CECA, which is by far the most important bilateral initiative between the two countries. This is particularly important since bilateral economic linkages appear to have enormous potential waiting to be tapped, especially through but not limited to the CEPA. Such an analysis will also help draw inferences for the broader economic integration process under the EAS.

India-Japan CEPA: Some Insights

The JSG constituted by the Prime Ministers of the two countries in 2005 to spell out the measures needed to expand trade in goods and services, which submitted its report in 2006, recommended that the governments of Japan and India launch negotiations to develop an Economic Partnership Agreement (EPA)/Comprehensive Economic Partnership Agreement (CEPA), within a reasonable period of time. During Prime Minister Manmohan Singh's visit to Tokyo in October 2010 for the annual bilateral summit, the two Prime Ministers signed a Joint Declaration on the conclusion of CEPA between the two countries. The CEPA was implemented in August 2011.

In the realm of trade in goods, two important aspects are worth analysing, i.e. tariff liberalisation commitments by each country and rules of origin provisions.

Table 5: India's Trade Liberalisation under India-Japan CEPA

Coverage of India's Imports from Japan under Different Categories of Tariff liberalisation Commitments of India under India-Japan CEPA				
Category of Tariff Liberalisation	Tariff liberalisation Commitments by India	Imports of India from Japan: 2005-2009 (Value: USD Million)	Average Annual Imports of India from Japan: 2005-2009 (Value: USD Million)	Proportion of Different Categories of Tariff Liberalisation by India in India's Average Annual Imports from Japan (per cent)
A	Customs duties on originating goods classified under the tariff lines indicated with "A" shall be eliminated, as from the date of entry into force of this Agreement	1581	316.2	5.97
B10	Customs duties on originating goods classified under tariff lines indicated with "B10" shall be eliminated in 11 equal annual instalments from the base rate to free	18152	3630.4	68.50
B5	Customs duties on originating goods classified under the tariff lines indicated with "B5" shall be eliminated in six equal annual instalments from the base rate to free	2740	548	10.34

Table 5 continued...

Table 5 continued...

Pa	Customs duties on originating goods classified under the tariff lines indicated with "Pa" and "Pb" shall be reduced in accordance with the terms and conditions set out in the respective notes indicated in the Schedule of India in Part 2	38	7.6	0.14
Pb	Customs duties on originating goods classified under the tariff lines indicated with "Pa" and "Pb" shall be reduced in accordance with the terms and conditions set out in the respective notes indicated in the Schedule of India in Part 2	99	19.8	0.37
X	The originating goods classified under the tariff lines indicated with "X" shall be excluded from any commitment of reduction or elimination of customs duties	3888	777.6	14.67

Source: Author's calculations based on data from UN / ITC, 2011.

Notes: (a) Categories as defined in the India-Japan CEPA 2010; (b) Customs duties on originating goods classified under the tariff lines indicated with "Pa" shall be reduced as follows: (i) 10.62 per cent as from the date of entry into force of this Agreement; (ii) 9.68 per cent as from 1 January 2012; (iii) 8.75 per cent as from 1 January 2013; (iv) 7.81 per cent as from 1 January 2014; (v) 6.8 per cent as from 1 January 2015; (vi) 5.94 per cent as from 1 January 2016; and (vii) 5 per cent as from 1 January 2017; (c) Customs duties on originating goods classified under the tariff lines indicated with "Pb," shall be reduced as follows: (i) 11.25 per cent as from the date of entry into force of this Agreement; (ii) 10.63 per cent as from 1 January 2012; (iii) 10 per cent as from 1 January 2013; (iv) 9.38 per cent as from 1 January 2014; (v) 8.75 per cent as from 1 January 2015; (vi) 8.13 per cent as from 1 January 2016; (vii) 7.5 per cent as from 1 January 2017; (viii) 6.88 per cent as from 1 January 2018; and (ix) 6.25 per cent as from 1 January 2019.

Tariff Liberalisation Commitments

The liberalisation commitments by India and Japan under the CEPA are summarised in Tables 5 and 6 respectively. There are different categories of liberalisation commitments covering differential import values.

As Table 5 suggests, on an average, around 69 per cent of imports from Japan fall in the category B10, which are to be liberalised fully by reducing base tariffs to zero in 11 years, the reduction being carried out in 11 equal annual instalments. Similarly, in the case of products falling in the B5 category, which is around 10 per cent of average bilateral imports, tariffs would be reduced to zero over six years in a similar fashion while products falling under category A, which accounts for around 6 per cent of bilateral trade, is to be liberalised on the date of entry into force of the CEPA. This leaves around 15 per cent of imports covered under category X, which is the negative list. In short, India's commitment for tariff elimination over specified periods covers about 85 per cent of imports.

In the same way, the Japanese liberalisation commitments for trade in goods could be analysed under CECA with India (Table 6). It is interesting to note that almost 95 per cent of average bilateral imports from India are covered under category A, implying free trade from day one. Around 4 per cent is in category B10 with tariff liberalisation spaced out over 11 years. A minimal half a per cent is in category X or the negative list.

The broad inferences that could be drawn from these trade liberalisation commitments are that tariff liberalisation by both countries, spanning specified timelines, covers a substantial portion of bilateral trade, that make the CEPA consistent with WTO provisions. Japan has liberalised more in relative terms when compared to India. This could mean that India has substantively taken care of domestic sensitivities. However, just because Japan's exclusion list is small, it does not mean that Japan has not protected its domestic interests. In fact, low trade coverage in the sensitive list could be misleading, giving the impression that these

Table 6: Japan's Trade Liberalisation under India-Japan CEPA

Coverage of Japan's Imports from India under Different Categories of Tariff liberalisation Commitments of Japan under India-Japan CEPA					
Category of Tariff Liberalisation	Tariff liberalisation Commitments by Japan	Imports of Japan from India: 2005-2009 (Value: USD Million)	Average Annual Imports of Japan from India: 2005-2009 (Value: USD Million)	Proportion of Different Categories of Tariff Liberalisation by Japan in Japan's Average Annual Imports from India (per cent)	
A	Customs duties on originating goods classified under the tariff lines indicated with "A" shall be eliminated, as from the date of entry into force of this Agreement	9240	1848	95.42	
B10	Customs duties on originating goods classified under the tariff lines indicated with "B10" shall be eliminated in 11 equal annual instalments from the base rate to free	391	78.2	4.04	
X	The originating goods classified under the tariff lines indicated with "X" shall be excluded from any commitment of reduction or elimination of customs duties	53	10.6	0.55	

Source: Author's calculations based on data from UN/ITC, 2011.

Note: Categories as defined in the India-Japan CEPA 2010.

have been included in the negative list because trade volumes are low although it is possible that the low trade volumes in these commodities could be attributed to the fact that they are highly protected.

Thus, it is imperative that these categories of trade liberalisation (or not) are analysed also in terms of tariff lines covered.

Rules of Origin

Rules of Origin (ROO) are meant to prevent entry of deflected imports via an FTA/PTA partner and not meant to restrict imports *per se*. They also have a developmental role to play in terms of employment and income generation through their emphasis on value addition and ‘real’ manufacturing in exporting activities (Das and Ratna 2011).

The Indo-Japan ROO formulations are quite optimal. Most of India’s exports (62 per cent) is covered by the general rule of CTS+35 per cent. Another 20 per cent is covered under the category, viz. Wholly-obtained Products. These together make the ROO implementation simple and straight-forward. Only the remaining 18 per cent are product-specific rules (PSRs), of which those with conditions or specific process test are the ones pertaining primarily to the textiles and clothing sector. In short, ROO formulation strikes a balance across simplicity, developmental effects and sector specificity.

From Table 8, it is evident that almost two-thirds of Japanese exports are covered by the twin criteria of CTS and 35 per cent value addition. The remaining one-third is covered by product-specific rules (PSRs). This indicates a good balance between simplified implementation through the general rule and specific considerations of manufacturing realities at the 6-digit level of HS production lines. Around 21 per cent are PSRs without any conditions implying that these are easy to implement. It is only in 12 per cent cases that PSRs have specific process tests to check third-party imports due to sector-specific and product specific requirements (primarily the textiles and clothing sector).

Table 7: Coverage of India's Exports to Japan under Different Rules of Origin under India-Japan CEPA

Category	Rules of Origin	India's exports to Japan: 2005-2009 (Value: USD Million)	India's Average Annual Exports to Japan: 2005-2009 (Value: USD Million)	Proportion of Different Rules of Origin in India's Average Annual Exports to Japan (per cent)
1	Manufacture in which all the materials used are wholly obtained.	3073	614.6	20.20
2	General Rule (CTSH + 35%)	9362	1872.4	61.54
3	Product Specific Rule			
3.1	Change of heading/subheading from other heading/chapter	1136	227.2	7.47
3.2	Change of heading/subheading from other heading/chapter (with conditions)*	360	72	2.37
3.3	Textiles and textile products			
3.3.1	Yarn and Fibres	491	98.2	3.23
3.3.1.1	Man-made staple fibres	0	0	0
3.3.2	Fabrics	42	8.4	0.28
3.3.3	Clothing	749	149.8	4.92
3.4	Miscellaneous **	1	0.2	0.01
		15214	3042.8	100

Source: Author's calculations based on data from UN/ITC, 2011.

Notes: Categories as defined in the India-Japan CEPA 2010.

* Conditions such as (but not limited to) - A change to subheading 8708.99 from any other heading, provided that there is a qualifying value content of not less than 40 per cent.

** Product code 940490 with description "Articles of bedding/furnishing, nes, stuffed or internally fitted " - manufacture from yarns.

Trade in Services

In trade in services, Japan has offered various concessions under the India-Japan CEPA. A list of service sectors, which has been committed for market access opening by Japan for India in the realm of Contractual Service Suppliers (CSS) and Independent Professionals (IPs) include Accounting, R& D, Tourism, Market Research; and Management Consultancy. Market access opening commitments have been taken by Japan to cover not only computer engineers but also a vast number of other engineering services such as mechanical, electrical, construction, industrial, design engineers and various types of project engineers. Substantive commitments have also been offered by the Japanese side for supply of computer related services, which is of immense importance to India's burgeoning IT & ITeS sector. Most of these commitments are without any restrictions.

For the first time Japan has agreed to grant market access to an additional category of "instructors" covering Indian yoga practitioners, Indian classical music and dance practitioners, Indian chefs and English language teachers to export on-shore services in Japan. For chefs, mobility has also been allowed in the category of skilled labour.

Japan has agreed to give substantial market access under Model (cross-border supply). It has agreed to start and conclude negotiations for a social security agreement in three years and to create openings for Indian nurses and caregivers (FICCI, 2011).

Investment

On the investment front, India has committed to continue the current national policy on foreign investments. The agreement signifies the stability of our policy regime to our investment partner. Japanese investment is important not only because of the resource flows it implies but also because of the embodied high technology and quality management practices that come with it.

The visit of the then Japanese Prime Minister, Yoshihiko Noda, to India during December 2011 and his meeting with Dr. Manmohan Singh, added further significance to the relations by adopting a *Vision for the Enhancement of India-Japan Strategic and Global Partnership*. This is an important development and needs to be viewed in the light of India's look east policy which is now evoking greater response from countries like Japan in terms of their westward focus on India. To what extent this could be termed as their look west policy remains to be seen (see also Joshi, 2012).

Overall, the India-Japan CEPA aims to build a substantive partnership, as the preceding analysis suggests, to tap the vast economic potential for co-operation between the two countries (see also Saiki, 2011).

The East Asian Regionalism

The East Asia Summit (EAS) is an immensely important initiative that could well turn out to be the focus of India's future economic and strategic integration in the region. The EAS is a forum for dialogue on broad strategic, political and economic issues of common interest and concern to promote peace, stability and economic prosperity in East Asia. It is an open, inclusive, transparent and outward-looking forum, which strives to strengthen global norms and universally recognised values, with ASEAN as the driving force working in partnership with the other participants of the East Asia Summit. Its members include the ASEAN-10 along with China, Japan, South Korea, India, Australia and New Zealand (the ASEAN+6 countries).

The first EAS was held in Malaysia in 2005. During the second EAS in the Philippines, two notable initiatives were announced by the leaders. The first was the launching of a Track II Study on a Comprehensive Economic Partnership in East Asia (CEPEA) among EAS members. The governments of the Asean+6 members nominated experts to conduct the

Table 8: Coverage of Japan's Exports to India under Different Rules of Origin under India-Japan CEPA

Category	Rules of Origin	Japan's exports to India: 2005-2009 (Value: USD Million)	Average Annual exports of Japan to India: 2005-2009 (Value: USD Million)	Proportion of Different Rules of Origin in Japan's Average Annual exports to India (%)
1	Manufacture in which all the material used is wholly obtained.	22	4.40	0.08
2	General Rule (CTSH + 35%)	18717	3743.40	66.17
3	Product Specific Rule			
3.1	Change of heading/subheading from other heading/chapter	5903	1180.60	20.87
3.2	Change of heading/subheading from other heading/chapter (with conditions)*	3274	654.80	11.57
3.3	Textiles and textile products			
3.3.1	Yarn and Fibres	269	53.80	0.95
3.3.1.1	Man-made staple fibres	54	10.80	0.19
3.3.2	Fabrics	35	7.00	0.12
3.3.3	Clothing and Apparel	14	2.80	0.05

Source: Author's calculations based on data from UN/ITC, 2011.

Notes: Categories as defined in the India-Japan CEPA 2010

* conditions such as (but not limited to) - A change to subheading 8708.99 from any other heading, provided that there is a qualifying value content of not less than 40 per cent.

study in which India actively participated. The two phases of the study were completed with important recommendations on liberalisation, facilitation and co-operation (EAS 2009). At the fourth EAS in 2009 in Thailand, the leaders adopted the study and its recommendations are under the consideration of the governments of the EAS members. The second important initiative was in terms of establishing a think-tank to work on the agenda of the EAS called the Economic Research Institute for ASEAN and East Asia (ERIA), which is based in Jakarta.

More recently, US and Russia have been included in the EAS framework, making the grouping ASEAN+6+2. The exact contours of this new formation are yet to be laid down; however, from India's perspective, this is a welcome development inasmuch as it provides an opportunity to work closely with like-minded countries with the ultimate goal of evolving a pan-Asian Economic Community.

The relevance of Asian economic integration in the EAS framework and the specific issues concerning integration of trade and investment regimes, and monetary and financial co-operation, among other issues, have been studied from the Track II processes (Kesavapany 2005; Kumar 2007; Kawai & Wignaraja 2007 among others). However, these efforts have yet to gain momentum. Meanwhile, with the expected inclusion of the US and Russia in the regional architecture in Asia, the already existing regional economic co-operation processes in the forms of ASEAN+1, ASEAN+3, and ASEAN+6 are expected to change. The pursuit of an Asian Economic Community in the 'new context' assumes a new meaning both in terms of its contours and processes.

As highlighted earlier, with the two mega-groupings, i.e. TTP and TTIP gaining momentum, of which India is not a member, the negotiations launched for a Regional Comprehensive Economic Partnership (RCEP) by the ASEAN+6 countries become more relevant for India. The question is what could the India-Japan economic partnership or the CEPA do to strengthen economic integration under the RCEP?

Meaning of India-Japan CEPA for the RCEP

Since the nature of the India-Japan partnership and bilateral CEPA is a developing-developed country arrangement, it has two important implications. One, it could help expand the intra-RCEP trade and economic integration and, two, given global production networks and value chains, this partnership could also help forge stronger linkages with extra-regional countries. In other words, India-Japan CEPA and partnership could help facilitate a process of shifting economic power to Asia while simultaneously ensuring greater economic co-operation with extra-regional economic centres. This would also explain the induction of the US and Russia in the EAS process. However, the exact modalities and dimensions would have to be worked out. The India-Japan CEPA could prove to be a model for various dimensions of negotiations within the ambit of RCEP. As analysed and highlighted earlier in the paper, the CEPA is a good example of substantial trade coverage, safeguarding domestic sensitivities and adequate rules of origin formulation that is development oriented and simple to implement. This could serve as a reference point for RCEP negotiations, especially when it represents consensus between an emerging economy like India with all its complexities and diversities and Japan, which is a developed country. It also would help prove the point that bilateralism actually can serve as a building block for pan-Asian regionalism.

More importantly, the bilateral economic engagement is also underpinned by a discourse on shared democratic values, common interests, and cultural references between India and Japan. These efforts, along with the famous interactions between Japanese and Indian intellectuals and independence leaders, are used today to justify their rapprochement (see Pajon 2010). This is a broader aspect of the bilateral relationship that could be useful in providing direction to the RCEP process.

Conclusion

With the shift in the centre of economic gravity towards Asia, the EAS and RCEP have assumed a new meaning. The new groupings in the form of a Trans-Pacific Partnership, attempts to resurrect the APEC, the TTIP; the intermittent moves to push for ASEAN+3 partnership at a faster pace and the proposed trilateral East Asian FTA among Japan, China and South Korea are all initiatives and forums that exclude India. It is, in this sense, quite crucial that groupings like the RCEP and EAS become fully functional and dynamic. This paper elucidates how the India-Japan economic partnership can provide a crucial input towards removing some of the conceptual ambiguities often associated with economic regionalism.

What emerges from the analysis presented in the paper is that the bilateral trade between Japan and India has witnessed an upward trend in recent years. However, India's exports to Japan as a percentage of its global exports and India's imports from Japan as a share of its global imports have remained quite low, indicating vast potential for enhancing the bilateral trade. Similarly, while Japanese FDI into India has shown an increasing trend in recent times, it is way below its potential. This sets up the basis for harnessing the full benefits of India-Japan CEPA in terms of its trade and investment-augmenting potential, the paper argues.

The paper further demonstrates that in this context, the signing and implementation of the India-Japan CEPA has an important role to play, especially in terms of providing a decisive leadership to the entire EAS process, including RCEP negotiations at the technical level. The India-Japan CEPA could provide a good template for negotiations in the EAS across a whole host of issues including modalities of *substantial trade coverage*, sensitive lists, and formulation of rules of origin with a developmental angle. These are the issues that often retard the process of negotiations in any regional economic grouping. It is likely to happen in a grouping like the RCEP, which has 16 members – by no means a

small number of countries – at varying stages of development and with diverse interests.

Thus, the paper concludes that it is not just a matter of providing leadership to the whole process of the EAS where India and Japan have roles to play both individually and in unison; instead, their bilateral CEPA could well serve as a good template for building consensus on several contentious technical economic issues of RCEP negotiations. However, it may be mentioned that India's partnership with Japan will have to be viewed not in isolation but also in the context of India-China and India-US partnerships as well.

Endnote

¹ This section briefly draws upon Das, Vasudev and Gupta (2011).

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