India-Japan Trade and Investment Relations and Their Future Prospects

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Abstract

Trade with Japan as a proportion of India's global trade had been declining. The FDI inflows into India from Japan had remained low for a long time. The share of India in Japanese global trade and FDI outflows had been almost insignificant. There has been a positive shift in recent years with respect to India's imports from Japan and Japanese FDI outflows to India. However, there is still a lack of momentum in India's exports and FDI outflows to Japan. The implementation of the India-Japan Comprehensive Economic Partnership Agreement (CEPA) is expected to boost trade and investment between the two countries. The knowledge and information gap between the two countries seems being bridged finally.

Key words: India-Japan trade, India-Japan investment, India-Japan CEPA.

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Dr. Mathew Joseph & Dr. Subhasis Bera

1. Introduction

Since 1991 after India embarked upon substantial economic reforms, the economy grew faster, trade expanded significantly and the country attracted rising investments from abroad. India received massive support from the Japanese government in the form of large overseas development assistance (ODA) and Japan became the biggest bilateral donor for India. However, during this period, the share of Japan in India's global trade as well as inward foreign investment steadily declined. More importantly, the share of India in Japan's global trade and outward investment remained just marginal. Such an outcome is quite strange for the two large countries with so much of complementarities and synergies. The situation, however, has begun to change in recent years. The two countries have signed a Comprehensive Economic Partnership Agreement (CEPA) last year which came into force from August 2011. This is expected to provide a boost to trade and investment relations between the two countries. In this context, this paper analyses the trade and investment relations between the two countries over the last 15 years and examines their future prospects.

2. Trade Relations

India's exports to Japan more than doubled from US$2.5 billion in 2005-06 to US$5.2 billion in 2010-11, growing at the average rate of 16 per cent per annum. However, the share of Japan in India's global exports shrank from 2.4 per cent in 2005-06 to 2.1 per cent in 2010-11. As a result, Japan slipped from the 10th to 12th position in India's exports over the last five years. India's imports from Japan nearly doubled from US$4.1 billion in 2005-06 to US$8.1 billion in 2010-11, with an average rate of growth of 14.9 per cent per year. However, the share of Japan in India's global imports declined from 2.7 per cent in 2005-06 to 2.3 per cent in 2010-11. Consequently, Japan's position in India's imports slipped significantly from the 10th to 16th over the last 5 years.

Total trade between India and Japan had been low at US$13.3 billion in 2010-11 as against India's trade with the US at US$43.2 billion and that with its now, the biggest trade partner, China, at US$59.2 billion[1]. India's trade with China recorded an annual average compound growth rate of 27.4 per cent during 2005-96 to 2010-11 against 15.3 per cent for India-Japan trade and 10 per cent for India-US trade.

2.1 Direction of India's Export Trade

Table 1 brings out the trends in the destination of India's exports in the past 15 years. The share of exports going to developed countries (excluding the Eastern Europe) has come down sharply and, shares to developing countries and OPEC nations have gone up. The OECD countries had a share of nearly 50 per cent of India's exports in 1995 and that declined to about 32 per cent in 2010. The share of Eastern Europe including Russia also declined from about 3 per cent in 1995 to about 1 per cent in 2010. In 1995, only 21 per cent of India's exports went to developing countries and that increased to 32 per cent in 2010. The OPEC countries received about 16 per cent of India's exports in 2010 against just 7 per cent in 1995.

[1] During April-September 2011 India's trade with China at US$35.4 billion exceeded that with the UAE, the biggest trade partner of India till 2010-11, at US$35.3 billion.

Table 1: Destination of India's Merchandise Exports (percentage Share)									
	Sub-region/ Country	**1995**	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Developing Countries		**21.2**	**21.4**	**30.7**	**30.4**	**32.1**	**34.5**	**30.0**	**31.8**
	Africa	2.3	2.8	3.8	3.9	4.9	5.3	4.7	4.5
	Asia	12.7	12.3	18.3	17.9	17.9	18.9	17.1	18.8
	SAARC	3.9	3.1	4.6	4.5	4.3	5.1	3.9	4.0
	ASEAN	6.0	4.8	8.3	8.3	8.3	8.5	8.7	8.6
	China	0.8	1.2	5.5	5.4	5.4	5.6	4.3	5.5
	Latin America	1.0	1.2	1.9	2.2	2.5	2.7	2.4	2.2
	Middle East	1.4	2.0	2.1	2.1	2.6	2.6	1.9	2.2
Eastern Europe		**2.9**	**2.4**	**1.4**	**1.2**	**1.3**	**1.3**	**1.4**	**1.2**
	Russia	2.5	2.0	0.6	0.6	0.6	0.5	0.5	0.5
	Others	0.4	0.4	0.8	0.7	0.7	0.8	0.9	0.7
OECD		**49.9**	**46.4**	**37.5**	**38.3**	**36.2**	**35.0**	**33.2**	**31.5**
	EU	24.2	21.0	18.1	18.4	17.5	17.8	17.7	16.6
	Germany	3.4	2.4	1.7	1.7	1.6	1.6	1.7	1.5
	Japan	6.3	3.6	2.1	2.0	1.9	2.0	1.4	1.7
	UK	5.3	4.3	3.6	4.0	3.7	3.5	3.0	3.0
	USA	15.7	17.9	13.6	13.8	12.4	10.8	9.7	9.2
	Other OECD	25.7	25.5	19.4	19.9	18.7	17.1	15.5	14.9
OPEC		**6.7**	**7.6**	**11.8**	**11.2**	**12.4**	**12.9**	**16.7**	**16.4**
	UAE	4.0	4.4	7.2	6.8	7.9	8.1	11.0	11.3
	Other OPEC	2.8	3.2	4.6	4.3	4.5	4.8	5.7	5.1
Others/ Unspecified		**19.3**	**22.2**	**18.7**	**18.9**	**18.0**	**16.3**	**18.8**	**19.1**
Total		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: DGCI&S, Kolkata.

2.2 Source of India's Imports

Table 2 shows the trends in the sourcing of India's imports during the last 15 years. This also affirms the shift of India's trade from developed to developing countries. In 1995, 54 per cent of India's imports had been from the OECD countries and, in 2010 the share fell to 35.5 per cent. The share of developing countries (excluding the Eastern Europe) in India's imports rose from 23 per cent in 1995 to 32 per cent in 2010.

Table 2 : Source of India's Merchandise Imports (percentage Share)									
Region	**Sub-region / Country**	**1995**	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Developing Countries		**22.8**	**28.3**	**24.4**	**24.0**	**30.8**	**30.8**	**31.4**	**32.4**
	Africa	3.5	7.1	3.4	3.1	3.4	3.6	4.0	4.1
	Asia	11.4	15.0	16.7	16.7	20.9	21.6	22.1	21.6
	SAARC	1.1	1.2	1.3	1.3	1.2	1.2	0.9	1.0
	China	2.7	2.6	6.4	7.3	9.4	10.9	10.7	10.7
	Latin America	2.7	1.9	1.8	1.7	2.8	2.3	1.8	2.6
	Middle East	4.1	3.2	1.4	1.3	2.5	2.2	2.4	2.9
Eastern Europe		**3.0**	**1.8**	**2.0**	**2.3**	**2.4**	**1.8**	**2.6**	**2.4**
	Russia	1.8	1.3	1.2	1.4	1.3	1.0	1.4	1.2
	Other EE	1.2	0.5	0.8	0.9	1.1	0.8	1.2	1.1
OECD		**54.1**	**45.8**	**39.3**	**38.1**	**37.8**	**37.8**	**34.7**	**35.5**
	EU	29.8	27.5	22.4	21.6	20.9	19.5	17.8	18.4
	Germany	7.6	3.7	3.6	4.0	4.1	4.0	4.0	3.6
	Japan	7.1	5.1	2.9	2.7	2.5	2.5	2.6	2.3
	UK	5.4	5.5	3.2	2.6	2.3	2.0	2.0	1.6
	USA	10.1	7.2	6.3	6.3	6.3	8.4	6.2	5.9
OPEC		**20.0**	**23.9**	**6.7**	**5.5**	**28.2**	**29.0**	**30.4**	**29.1**
	UAE	5.4	4.7	4.2	2.9	4.7	5.4	7.7	6.7
	Other OPEC	14.7	19.2	2.5	2.6	23.5	23.6	22.7	22.4
Others/ Unspecified		**0.1**	**0.3**	**27.6**	**30.1**	**0.8**	**0.5**	**1.0**	**0.7**
Total		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Source: DGCI&S, Kolkata.									

2.3 India's Trade with Japan

In 1995, Japan had been the second largest destination for India's exports accounting for a little over 6 per cent. In 2010 the share of Japan in India's exports plunged to below 2 per cent. The main items of India's exports to Japan has been minerals such as iron ore (constituting 36 per cent in 2010), metal products (16 per cent), food products including marine products (15 per cent), raw materials (15 per cent) and chemical products (8 per cent). (See Urata, Shujiro, 2011).

It has been noted that the prices of certain products that India exports to Japan are significantly higher than India's exports to other countries. This is due to a much higher cost of certification by Japanese agencies as compared to Indian agencies. It has been suggested by India's Agricultural and Processed Food Products Export Development Authority (APEDA) that the Japanese government accords Indian certification agencies an equal status as that of Japanese agencies. This can particularly boost exports of organic products to Japan which include basmati rice, honey, spices, tea, and dry fruits (Nataraj, Geethanjali, 2010).

Japan had been a major source of India's imports in 1995 with about 7 per cent share, just behind the US at 10 per cent and Germany at 7.6 per cent. In 2010, Japan accounted for just a little above 2 per cent of India's imports. China overtook the US as the single most important source of India's imports in 2005 and it gained a share of nearly 11 per cent of India's imports in 2010 against about 6 per cent for the US in that year.

India's major item of imports from Japan has been general machinery constituting 31 per cent of total imports in 2010. This is followed by metal products particularly iron and steel accounting for 23 per cent. Electrical machinery (17 per cent), chemical products (10 per cent) and transportation machinery (8.5 per cent) are the other important import products from Japan.

2.4 Japan's Trade with India

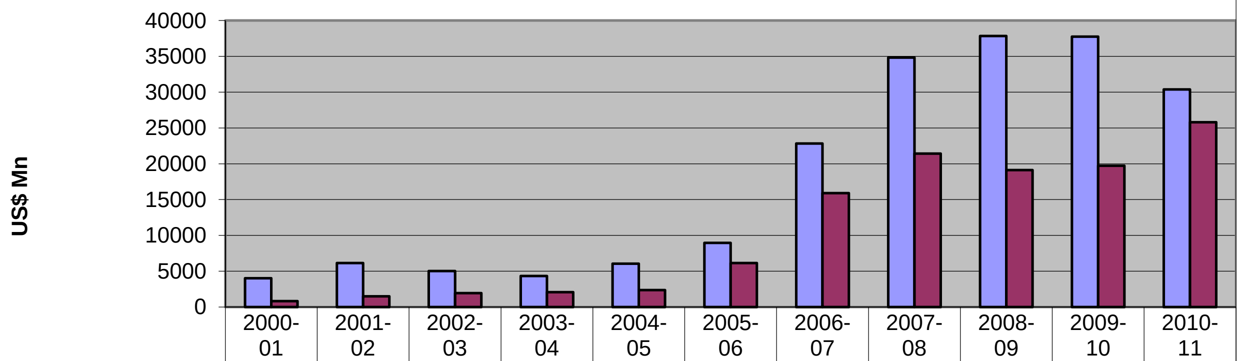
Although the share of Japan in India's trade has been falling significantly over the years, Japan remains an important trade partner of India. However, India has been only a marginal trade partner for Japan. India constituted just 0.6 per cent of Japan's global exports as well as imports in 2005. It seems that a shift has begun since then and, India's share in Japanese trade has steadily improved in recent years. However, this improvement can be seen more in the case of Japanese exports to India than for her imports from India as depicted in Table 3.

Table 3: Japan's Merchandise Trade with India(Percentage Share)		
Year	**Exports**	**Imports**
2004	0.5	0.6
2005	0.6	0.6
2006	0.7	0.7
2007	0.9	0.7
2008	1.0	0.7
2009	1.1	0.7
2010	1.2	0.8
Source: JETRO (Japan External Trade Organization).		

3. Foreign Direct Investment

Although India liberalized the FDI regime beginning from 1991, the country received substantial FDI inflows only from the mid-2000s. As the FDI inflows increased significantly since the mid-2000s, there has been a progressive relaxation of controls on outbound investments by Indian companies. This together with the increasing strength and competitiveness of the Indian corporate sector led to huge outward FDI flows from India in recent years. India's FDI inflows and outflows during the last ten years can be seen from Chart 1. It may be seen that the inward FDI flows into India reached a high of US$38 billion in 2008-09 and 2009-10 before dropping to US$30 billion in 2010-11. FDI outflows from India, on the other hand, had been around US$19-21 billion per year during 2007-08 to 2009-10 and they jumped to about US$26 billion in 2010-11.

Chart 1: India's FDI Inflows and Outflows (2000-11)



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
FDI Inflows	4029	6130	5035	4322	6051	8961	22826	34835	37838	37763	30380
FDI Outflows	829	1495	1951	2076	2374	6144	15897	21429	19124	19729	25802

Source: Reserve Bank of India.

3.1 Japanese FDI in India

Japan's foreign direct investment (FDI) into India had been low till very recently with the cumulative FDI inflows from Japan during the ten-year period from April 2000 to March 2010 at just US$3.7 billion. This constituted just 3.4 per cent of total FDI inflows India received during that period and Japan's ranking had been 7th in this regard. A significant change happened since then with the cumulative FDI inflows from Japan shooting up to 7.1 billion by September 2011. With this, Japan's share in cumulative FDI inflows to India during April 2000 to September 2011 jumped to 4.8 per cent and Japan's rank improved to the 5th position[2]. This may be compared to Singapore, which is now the second largest foreign direct investor in India with a share of over 10 per cent during April 2000 to September 2011[3]. Although South Korean companies like Hyundai, LG and Samsung have made their high-profile presence in India, the share of South Korea in the cumulative FDI inflows to India had been below one per cent till September 2011.

[2] This is based on the data from the Indian Ministry of Commerce and Industry. This grossly understates the actual Japanese FDI outflows to India in recent years. The data from Japanese source (JETRO) which are used later in this paper gives a much higher FDI outflows to India from Japan.

[3] Mauritius is the largest foreign direct investor in India with a share of 41 per cent during April 2000-September 2011. Because of tax exemptions given in India to enterprises incorporated in that country, companies from around the world have set up units there for investing in India. Bulk of foreign direct investment from Mauritius to India is from subsidiaries of companies belonging to other countries.

3.2 FDI Flows with respect to Japan, China and India

While the size of FDI flows is important, a better way to gauge those flows is to consider them as a proportion of domestic fixed capital formation. Table 4 gives a comparative picture of FDI inflows as well as outflows in regard to the three biggest economies of Asia – Japan, China and India.

Japan is known for its outward FDI and its inward FDI flows have been relatively low. China and India, on the other hand, have significant FDI inflows and also outflows. With regard to inbound flows, China attracted huge amounts of FDI in the 2000s, but as proportion of its gross fixed investment, this has been, in fact, progressively declining in recent years. FDI inflows peaked in the mid-nineties at above 15 per cent of gross fixed investment and came down to less than 8 per cent in 2005 and further down to about 4 per cent in 2010. In contrast, India's FDI inflows rose from about 2 per cent of gross fixed investment in 1995 to about 7 per cent in 2006

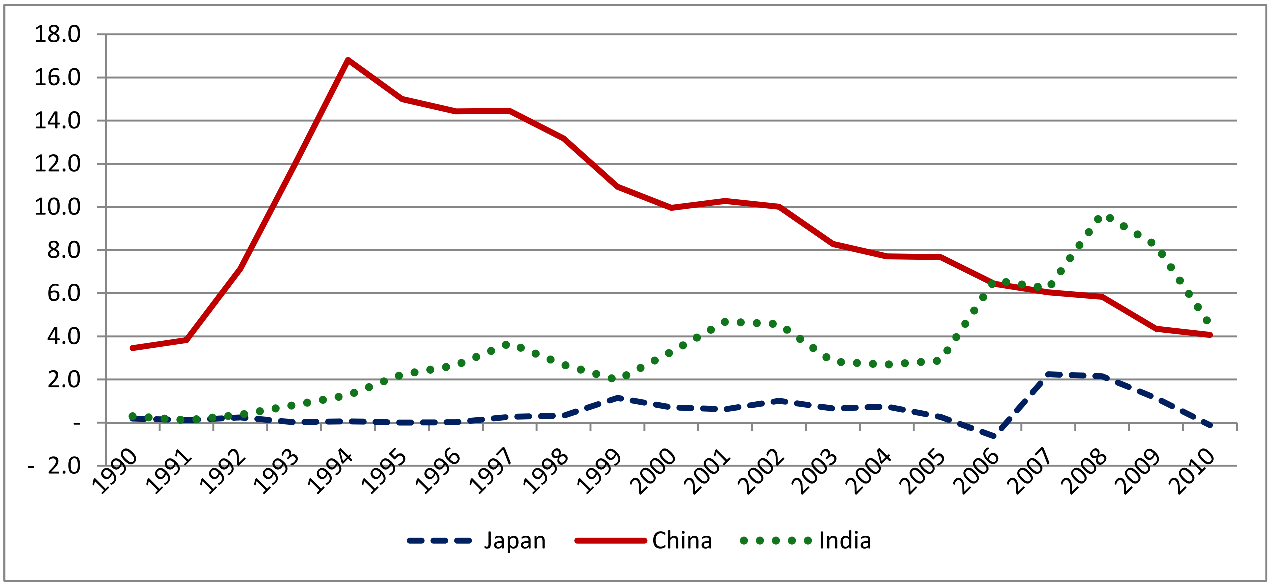
Table 4: FDI Flows with Respect to Japan, China and India (1990-2010)

	1990	1995	2000	2005	2006	2007	2008	2009	2010
FDI Inflows (US$ Million)									
Japan	1 806	41	8 323	2 775	- 6 507	22 550	24 426	11 939	- 1 251
China	3 487	37 521	40 715	72 406	72 715	83 521	108 312	95 000	105 735
India	237	2 151	3 588	7 622	20 328	25 350	42 546	35 649	24 640
FDI Inflows as a percentage of gross fixed capital formation									
Japan	0.2	0.0	0.7	0.3	- 0.6	2.2	2.1	1.1	- 0.1
China	3.5	15.0	10.0	7.7	6.4	6.0	5.8	4.3	4.1
India	0.3	2.2	3.3	2.9	6.6	6.2	9.7	8.2	4.5
FDI Outflows (US$ Million)									
Japan	50 775	22 630	31 557	45 781	50 264	73 548	128 019	74 699	56 263
China	830	2 000	916	12 261	21 160	22 469	52 150	56 530	68 000
India	6	119	514	2 985	14 285	17 234	19 397	15 929	14 626
FDI Outflows as a percentage of gross fixed capital formation									
Japan	5.2	1.5	2.7	4.3	4.9	7.3	11.2	7.1	5.1
China	0.8	0.8	0.2	1.3	1.9	1.6	2.8	2.6	2.6
India	0.0	0.1	0.5	1.1	4.6	4.2	4.4	3.7	2.7

Source: UNCTAD.

and 10 per cent in 2008, before declining sharply to 4.5 per cent in 2010, after the global crisis. In the case of Japan, FDI inflows as a proportion of gross fixed investment reached just above 2 per cent of its fixed investment in 2007 and declined thereafter and turned negative in 2010 (see also Chart 2).

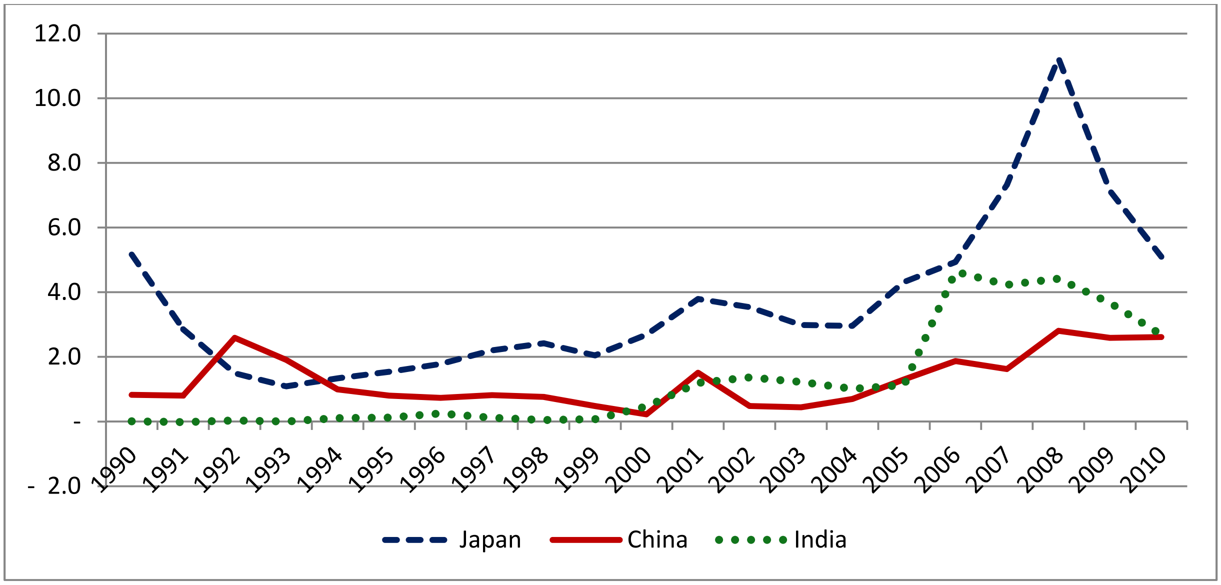
Chart 2: FDI inflows as % of Fixed Capital Formation



Source: UNCTAD.

Turning to outbound FDI, Japan's outflows rose progressively from 1.5 per cent of its gross fixed investment in 1995 to about 4 per cent in 2005 to a high of 11 per cent in 2008 before declining in the crisis years to a low of 5 per cent of its fixed investment in 2010. China's outward FDI flows as a proportion of its fixed investment had been modest till the early 2000s but increased substantially in the crisis year of 2008 to about 3 per cent of its fixed investment and remained high at those levels in 2009 and 2010. India's outward investment rose substantially since 2005 to above 4 per cent of its fixed investment but declined after the crisis to below 3 per cent of fixed investment by 2010 as can be seen in Chart 3.

Chart 3: FDI Outflows as % of Fixed Capital Formation



Source: UNCTAD.

3.3 Destination of Japanese Outward FDI

Japanese outward FDI has significant presence in every region of the world except in the Middle East and Africa. However, the geographical pattern of Japanese FDI has evolved over time. In the second half of the nineties, the US alone received over a third of Japanese FDI outflows. In the first half of 2000s, Japanese FDI outflows were increasingly directed towards Europe with its share going up to about 30 per cent of the total and the US and Asia receiving slightly above a fourth each. In the second half of 2000s, Japanese FDI shifted towards Asia, Central & South America and Oceania (particularly Australia): Europe's share declined to 27 per cent and the US share to 21 per cent; Asia's increased to 29 per cent, that of Central & South America to 15 per cent and Oceania to about 7 per cent. As part of the shift towards Asia, India's share jumped from just 0.5 per cent in the first half of 2000s to 3.4 per cent in the second half.

Table 5 : Direction of Japan's Outward FDI (1996-2010			
	1996-00	**2001-05**	**2006-10**
Asia	**27.7**	**26.6**	**29.0**
ASEAN	15.1	9.1	10.8
Singapore	3.1	1.7	3.0
China	5.4	12.2	9.5
South Korea	1.8	2.1	2.0
India	1.3	0.5	3.4
Europe	**20.8**	**29.9**	**26.6**
UK	8.7	12.2	6.9
Netherlands	10.1	8.5	10.7
North America	**36.0**	**27.6**	**21.9**
US	35.4	25.9	20.9
Oceania	**2.2**	**3.7**	**6.6**
Australia	1.6	3.0	6.3
Central & South America	**12.8**	**11.7**	**14.7**
Brazil	2.1	2.0	4.2
Cayman Islands	8.0	7.5	9.0
Middle East	**0.5**	**0.2**	**0.6**
Africa	**0.4**	**0.6**	**0.7**
South Africa	0.4	0.2	0.4
World	**100.0**	**100.0**	**100.0**
Source: JETRO, 2011.			

3.4 Japan's Inward FDI

Japan's inward FDI flows although low, have grown from an average annual amount of US$5.4 billion during the second half of 1990s to US$6.5 billion in the first half of 2000s to a larger US$10.1 billion in the second half. Table 5 brings out the geographical distribution of Japanese FDI inflows during 1996-2010.

Table 6: Japan's Inward FDI flows by Source (1996-2010)(percentage share)			
	1996-00	**2001-05**	**2006-10**
Asia	**12.5**	**9.4**	**16.6**
ASEAN	1.8	3.6	15.6
Singapore	1.9	4.5	14.7
China	-0.1	0.0	0.5
South Korea	0.9	0.9	2.3
India	0.0	0.0	0.0
Europe	**61.7**	**64.4**	**28.0**
UK	5.1	-4.1	22.8
Netherlands	12.4	41.8	-20.7
France	35.5	13.1	4.9
Germany	11.0	12.2	4.8
Luxemburg	0.6	4.4	3.7
Switzerland	3.4	0.7	4.8
North America	**8.4**	**25.6**	**53.1**
US	4.9	21.6	59.4
Oceania	**1.8**	**-0.5**	**1.1**
Australia	1.8	-0.3	0.7
Central & South America	**15.6**	**1.1**	**0.8**
Brazil	0.0	0.1	0.0
Cayman Islands	12.8	1.6	13.0
Mexico	0.0	0.0	-14.5
Middle East	**0.0**	**-0.1**	**0.0**
Africa	-0.1	0.0	0.4
South Africa	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**
Source: JETRO, 2011.			

In the latter half of the nineties and the early half of the 2000s, FDI inflows into Japan had been predominantly from Europe which constituted nearly two thirds of the total FDI inflows. This drastically changed in the second half of 2000s as FDI inflows from the US increased to almost 60 per cent (from 22 per cent in the first half) and those from Europe contracted to 28 per cent (from almost 65 per cent). The share of Asia also rose in the second half of last decade to 17 per cent against 9 per cent in the first half. This is predominantly because of the considerably larger inflows from Singapore and some increase from South Korea. Singapore alone accounted for about 15 per cent of Japanese FDI inflows in last five years, a dramatic rise from below 5 per cent in the previous five years. In sharp contrast, not much of the rising FDI outflows from India in this period had been directed towards Japan.

We may sum up the analysis so far:

- India's trade with Japan although growing at 15 per cent per annum in recent years, the share of Japan in India's global trade has been coming down continuously. On the other hand, India's trade with China is growing rapidly at a rate of about 27 per cent per annum.

- India's share in Japan's global trade is just marginal but that share has started growing continuously since the mid-2000s particularly in the case of Japan's exports to India and not as much for Japan's imports from India.

- Japan's foreign direct investment in India had been very low in size as well as, as a proportion of total FDI inflows into India, till very recently. Its share in Japan's FDI outflows had been almost insignificant. However, in the late 2000s there has been a marked increase. This is part of the directional change in Japanese outward FDI towards Asia, Oceania and Central & Southern America.

- The source of Japan's inward FDI has shifted towards the US and Asia since the mid-2000s at a time when India's outbound FDI have increased substantially. However, Indian companies have not yet started investing in Japan to a significant extent.

- Thus with some changes visible in Japan's exports and outward FDI to India, what is now crucially missing in India-Japan relations is a lack of momentum in India's exports and outward FDI to Japan.

4. Future Prospects

4.1 Trade Prospects

With regard to trade, the data available in the first half of the current financial year indicate that India's imports from Japan have improved with a significant growth of 32.1 per cent and Japan's position in India's imports rising to the 14th from 16th in 2010-11. On the other hand, India's exports to Japan deteriorated further with just 4.4 per cent growth in April-September 2011, the share of Japan in India's exports falling below 2 per cent to 1.8 per cent and its position sliding to the 14th from 12th in 2010-11.

In this context, the Japan-India Comprehensive Economic Partnership Agreement (CEPA) which came into force on 1 August 2011 assumes major significance. This provides for increased access to each other's market for goods by eliminating tariffs over the next ten years on about 94 per cent of bilateral trade. Japan will abolish tariffs on about 97 per cent of India's exports to Japan where as India will do so on about 90 per cent Japan's exports to India.

The major gainers of the CEPA on the Indian side are exporters of textiles, seafood and spices for whom the tariffs are eliminated on 1st August 2011 itself. Other beneficiaries include agricultural products such as mangoes, citrus fruit, instant tea; chemical and petrochemical products; cement and jewellery. India's pharmaceutical industry will also benefit as Japan has agreed to extend it 'national treatment' which would considerably shorten the time required for registration. On the Japanese side, the main gainers include consumer durables such as electronics, and auto parts made of steel on which India will reduce tariffs over ten years. It may be noted, however, that India has kept automobile and auto parts (other than steel) industry in the negative list of items where no import tariff reduction is proposed.

4.2 Foreign Direct Investment

We have seen that Japanese FDI in India, after some long delay, has finally been rising rapidly in the very recent period. This is echoed in the results from recent surveys of Japanese manufactures. A Japan Bank for International Cooperation (JBIC) survey of Japanese manufacturers done in 2010 has placed India as the most attractive FDI destination for Japan over the long term (next 10 years) ahead of China. Over the medium term (next 3 years), India is second only to China as a promising overseas investment destination for Japanese companies. A survey of Japanese small and medium enterprises (SMEs) by the Tokyo Chamber of Commerce and Industry in 2010 showed India as the third best promising business opportunity for Japanese companies in the Asian region after China and Vietnam.

That the expansion of Japanese companies into India has become faster in the recent period has been confirmed also by a survey conducted by the Japanese embassy in India which found that the number of Japanese firms in India had grown from 438 in January 2008 to 725 in October 2010 and Japanese offices from 555 to 1236, in the same period. The growth has been across a wide part of India and included in particular West Bengal in the east, Tamil Nadu and Andhra

Pradesh in the south and Gujarat in the west, with Tamil Nadu registering the highest growth (Okamura, Tadashi, 2011).

Why have the Japanese companies waited for so long to come to India? The Japan Chamber of Commerce and Industry in India (JCCII)'s report submitted to the Indian Department of Industrial Policy and Promotion (DIPP) a few years ago attributes the reluctance of Japanese companies to invest in India to the "tough" Indian business environment. The difficult business environment in India is said to be on account of: poor infrastructure; complex tax system; cumbersome land acquisition and utilization procedures; legal, regulatory and procedural delays; bureaucratic inefficiency; and lack of administrative transparency.

A more significant reason for the low Japanese FDI into India may be mentioned: the lack of knowledge and information about each other's market stemming from crucially, language and cultural barriers. However, it appears that the knowledge and information gap between the two countries is being finally bridged leading the way to increased trade and investment between the two countries. Besides, the rising wages and labour-relations problems in China; and the resurfacing of territorial issues with China, unresolved since World War II, have led to Japanese companies looking for alternative destinations for trade and investment. India's fast growing economy with a burgeoning market, its rising pool of managerial talent, and a scientific as well as technical labour force are beginning to gain attention of the Japanese investors. The remarkable success of the Maruti-Suzuki automobile company and the Delhi Metro project and the new massive US$90 billion Delhi-Mumbai Industrial Corridor (DMIC) project indicate the future direction of Japanese investment in India.

Finally, coming to India's foreign direct investment into Japan, we find that it is almost nonexistent. This is despite the large outward investment of Indian companies since the mid-2000s. This is in fact a reflection of India's low exports to Japan which are hardly 2 per cent of India's global exports. There are indications that this would change. There are prospects that Indian companies particularly in the area of IT, IT-enabled services, pharmaceuticals and bio-technology will be investing in Japan.

Conclusion

Japan's long reluctance to invest in India appears to have ended and in recent years Japanese FDI flows to India have increased substantially. Along with this, India's imports from Japan have also improved recently. However, India's exports to Japan have continued to languish and have fallen below 2 per cent of India's global exports. There has been virtually no outward FDI from India into Japan. The CEPA between India and Japan which came into effect from August 2011 is expected to improve the trade between the two countries and reverse the slide in India's exports to Japan. India's investment into Japan also is expected take off in the coming years in areas of IT, pharmaceuticals and biotechnology.

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