

Overview of the Joint Statement by Japan and India

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Japan and India: Complementary Economies

The Indian economy has grown at an annual rate of 7 – 8% in recent years, driven by the services industry, including software development and orders for business process outsourcing (BPO) and engineering process outsourcing (EPO). In addition, India's population now exceeds one billion. India's middle class, which possesses significant purchasing power, is growing dramatically and is said to number some 200 million people. In Japan, on the other hand, the birthrate is declining and the domestic market is approaching the maturity point. India offers great promise for Japan, both as a destination for investment and as a future market. India is also an attractive source of human resources with technical or management skills. In this respect, the economic relationship between Japan and India is mutually complementary, and the expansion of business between the two nations is expected to benefit both countries.

In the period from November 2005 to May 2006, Japanese organizations such as Nippon Keidanren (Japan Business Federation), the Japan-India Business Cooperation Committee, the Tokyo Small and Medium Business Investment and Consultation Co., Ltd., the Organization for Small & Medium Enterprises and Regional Innovation (SMRJ), and the Japan Finance Corporation for Small and Medium Enterprises have dispatched various missions to India. Further, in recent years, government-level exchange between the two countries, involving cabinet members and other parliamentarians, has become increasingly common, illustrating the mutual increase in interest between the two

countries.

At the same time, in order to sustain its economic growth, India requires sources of employment to absorb the predicted increase in the numbers of young workers, but at present, the share of GDP occupied by manufacturing industry, which is effective in generating employment opportunities, is low in comparison to those of the

ASEAN nations. The Indian government is also promoting an expansion of exports of industrial goods and is working to develop Special Economic Zone (SEZ) where corporations that realize a net profit in foreign currency terms would receive preferential tax treatment.

It is against this background that large Japanese corporations in the

Photo: Hachiyama Koji



Nath (left) and Nikai shaking hands after talks and the signing of a Joint Statement

automobile and chemical industries are establishing themselves in India. The Small and Medium-sized Enterprises (SMEs) that are the foundation of Japan's industrial competitiveness are also pursuing investment in India, particularly in automobile-related fields. In general, SMEs require greater support in terms of information, funding and human resources than large corporations.

A Joint Statement for Supporting Indian SMEs

Japan's METI is considering supporting SMEs investments in India in cooperation with the Japan External Trade Organization (JETRO), and METI and JETRO sent a business mission in February 2006, made up mainly of representatives of SMEs. Given that the Indian government eagerly welcomes these firms to follow larger corporations by establishing a presence in India, METI has held talks with the Indian government about the establishment of a cooperation system to support the Japanese SMEs' advance into India. This progress led to talks and the signing of a Joint Statement by Nikai Toshihiro, Minister of Economy, Trade and Industry and Kamal Nath, Minister of Commerce and Industry of India, who visited Japan in June 2006.

The Joint Statement signed at the time is based upon two main elements. The first is an action plan to facilitate Japanese corporate investment in India, primarily by SMEs. The second element involves Japanese cooperation with India as a global partner. The details of the Joint Statement are as follows.

The action plan consists of three elements to: (1) strengthen functions for the provision of information to potential investors; (2) provide more opportunities for business matching; and (3) develop a platform for the improvement of the Japan-India trade and

investment environment.

With regard to the provision of information to potential investors, first of all, with the cooperation of JETRO and the Confederation of Indian Industry (CII), a consultation service has been set up as an "Indo New Window" between METI and the Ministry of Commerce and Industry. With regard to information gathering, in addition to its existing offices in Delhi and Mumbai, JETRO sent staff to establish a Bangalore office and the Japan Finance Corporation for SMEs is also considering dispatching staff to the JETRO New Delhi Center. In order to lend support for the start-up activities of Japanese potential investors, the JETRO New Delhi Center established a Business Support Center as an incubator facility in July 2006 and sent an advisor on overseas investment.

With regard to business matching, in addition to providing the necessary support for trade fairs and seminars held in either country, both governments will promote the "One Village, One Product" campaign. And CII and SMRJ will exchange information regarding business interests expressed by Japanese and Indian enterprises. It is hoped that other organizations will make such efforts.

In terms of initiatives designed to improve the environment for trade and investment, a report of the Japan-India Joint Study Group (JSG), which had been discussing a possible Japan-India Economic Partnership Agreement (EPA), has already been finalized and was presented to the leaders of the two countries in July.

With regard to improvements in infrastructure, to date Japan has facilitated this in India by mean of soft loans, and India is currently the largest recipient of yen loans. Technical cooperation has so far been focused on the environmental and energy-conservation sectors or the development of human resources for industry. The

Joint Statement includes a provision for Japanese experts to be dispatched to the Automotive Component Manufacturers Association of India (ACMA) and the PHD Chamber of Commerce and Industry (PHDCCI).

In addition, the two countries have agreed to consider the possibilities for economic cooperation to make it easier for Japanese companies, particularly SMEs, to establish themselves in India's industrial parks and SEZs. This will be facilitated through dialogue between the Japanese government and the state governments of the target regions such as Rajasthan State in India.

Furthermore, the two ministers agreed to continue discussions, focused on the content of these action plans, on various occasions such as the Japan-India Investment Dialogue.

With regard to the second main element, cooperation as global partners, in addition to further strengthening cooperation aimed at bringing a successful conclusion to the World Trade Organization's (WTO) Doha Development Agenda, initiatives such as the dispatch of joint investment survey teams are being considered to survey the third country markets of the East Asian region. Also, because the Pan-Asian Free Trade Agreement (FTA) concept espoused by Manmohan Singh, Indian Prime Minister, and the East-Asia EPA advocated by Nikai both indicate that there are many shared views of the future economic unification of the East Asian region, it was agreed that both countries would cooperate to deepen links aimed at East Asian economic integration.

In addition to cooperating with India as a global partner, in keeping with the action plan agreed upon in the Joint Statement, together with the government of India, METI intends to support the advance of Japanese SMEs into India and to develop specific measures toward this end. **JS**