

The graphic for 'INDIA JAPAN' features the word 'INDIA' in orange, a central red circular sun-like element with a white 'J' inside, and the word 'JAPAN' in red. Several black bird silhouettes are scattered above the text.

INDIA JAPAN

ROADMAP TOWARDS REALISING VISION 2025

A KNOWLEDGE REPORT

JANUARY 2018



INDIA JAPAN

ROADMAP TOWARDS REALISING VISION 2025

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Foreword

India and Japan, the two largest democratic countries in Asia, share cordial relations under the 'Special Strategic and Global Partnership' based on decades of commitment towards partnership in development. Prime Minister Abe's successful visit to Ahmedabad, India last year imparted a fresh momentum to our relationship. The ground breaking ceremony of the Mumbai-Ahmedabad High Speed Rail (MAHSR) project is certainly one of the most path developments and is indicative of our strong cooperation.

The recent developments have laid strong emphasis on Railways, Infrastructure, Manufacturing including Defense manufacturing and SME as focus sectors for cooperation between the two countries. As we move closer towards realising vision India-Japan Vision 2025, institutions such as the India-Japan Business Cooperation Committee (IJBCC) would play a pivotal role in bringing the business community of the two nations together.

FICCI takes immense pride from the fact that it was the first business chamber from India to set up a bilateral mechanism in form of IJBCC in 1966. With its 52 years rich history it has been an important annual event and can be greatly accorded for the enhanced mutual understandings and productive discussions between the two sides. We have witnessed various several tangible results in our economic relationship due to the rich discourse of these meetings.

On the occasion of the 42nd India-Japan Business Cooperation Committee meeting, we are delighted to launch the FICCI report on "**India-Japan: Roadmap towards Realising Vision 2025**". The report takes account of the current status of India-Japan trade and investment relations and highlights some of the recent developments and key areas for industry cooperation.

I wish the IJBCC and deliberations at the 42nd Joint Meeting all the success.

Onkar Kanwar

A handwritten signature in black ink, appearing to read 'Onkar Kanwar', with a long horizontal stroke underneath.

Onkar S Kanwar

Chairman, India Japan Business Cooperation Committee (IJBCC) &
Chairman & Managing Director, Apollo Tyres Limited

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Introduction

Introduction

The potential benefits of an effective rapport between Japan and India were recognised as early as 752 AD¹. In this sense, historically India and Japan have enjoyed bilateral ties which have begun almost 1400 years ago². India's relationship with Japan is a partnership with deep rooted friendship bounded by spiritual, cultural and civilizational affinities. In modern times, one of the oldest international friendship bodies was the India-Japan Association set up in 1903. Long and old relations between India and Japan indicate that there have been lot of similarities between the two countries which have only strengthened the relations. This includes shared values of democracy, respect for the rule of law combined with convergence of political, economic and strategic interests.

In modern times, both democracies are committed to the shared ideals of democracy, tolerance, pluralism and open society. More recently, the two democracies have come together with a mandate of driving ties through economic performance as well as earmarked by the two dynamic Prime Ministers of both countries-Prime Minister Narendra Modi and his Japanese counterpart Shinzo Abe. Both leaders have laid out a vision document for the future with the largest potential for growth, into a deep, broad-based and action-oriented partnership, which reflects a broad convergence of their long-term political, economic and strategic goals titled 'India Japan Vision 2025'.

Earlier last year, the Japanese PM Shinzo Abe paid an official visit to India on 13-14 September 2017 at the invitation of Indian PM Modi. Both the leaders discussed a wide array of issues under the 'special strategic and global partnership' between the two democracies in tandem with the vision document released in 2015. This visit was preceded by PM Narendra Modi's visit to Japan at the invitation of PM Shinzo Abe, Prime Minister of Japan in 2016. The two Prime Ministers held wide-ranging consultations on 11 November 2016, in Tokyo, during which they undertook a comprehensive review of the Special Strategic and Global Partnership as outlined in the vision document 'India Japan Vision 2025'. Both these visits are part of the transformative relationship that began since the beginning of the 21st century when annual Prime Ministerial summits were conceived. The idea for a 'Special Strategic and Global Partnership' was arrived in the year the 2014 during the 9th Annual Prime Ministerial summit meeting with PM Shinzo Abe.

Given this background, the main aim of this knowledge report is to undertake an overview of both the economies as well as study of economic and commercial aspects of India-Japan relations as they have evolved over the recent years. The idea is to trace the trade and investment relations as well as other issues of common interests which strengthen ties between the countries. The report documents the opportunities and challenges that two countries currently face in the due process of building further relations.

¹ MEA Brief on Indo-Japan Relations http://www.mea.gov.in/Portal/ForeignRelation/14_Japan_Nov_2017.pdf

² Ibid



**An Overview of the Indian Economy and latest
developments undertaken by the Indian Government**

An Overview of the Indian Economy and latest developments undertaken by the Indian Government

Macroeconomic Indicators	
GDP (Official exchange rate)	\$2.264 trillion (2016 est.) 4th largest in the world
GDP – Real Growth rate	7.1% (2016 est.)
GDP – Purchasing Power Parity (PPP)	\$8.701 trillion (2016 est.)
GDP - Per capita income	\$6,700 (2016 est.)
Population	1,281,935,911 (July 2017 est.)
Area	3,287,263 sq km country comparison to the world: 8
Exchange Rate (Indian Rupee (INR) per US\$)	68.3 (2016 est.)
Currency	Indian Rupee (INR)
Gold and Foreign Exchange reserve in USD	\$359.7 billion (31 December 2016 est.)
Total Trade with ROW (2016 est.)	\$644.7 billion
Total Exports (2016 est.)	\$268.6 billion
Total Imports (2016 est.)	\$376.1 billion
Inflation	4.5% (2016 est.)
Inward FDI stock (2016 est.)	\$318.5 billion
Outward FDI stock (2016 est.)	\$144.1 billion
GDP Composition (2016)	
Agriculture	17.4%
Industry	28.8%
Services	46.2%
Labor Force	
Agriculture	47%
Industry	22%
Services	31%
Development Indicators	
Literacy Rate	71.2%
Human Development Index	0.62
Gini Index	0.50
Ease of Doing Business Rank	100

Source: CIA WORLD FACT SHEET

Despite an uncertain global environment, India is performing well. Over the last three years, India has clocked over 7.0% growth (7.5% in 2014-15, 8.0% in 2015-16, 7.1% in 2016-17). This indicates a robust performance despite persistent global headwinds. Last year was particularly difficult with significant downside risks emerging from a slew of external and internal developments. Results of the Brexit referendum, the US presidential elections, the OPEC decision to cut oil production quotas and the sudden demonetization move of the government posed significant challenges. The macroeconomic framework of the country has improved over the past three and half years since 2014 and government has been serious about pursuing structural reforms.

According to the World Bank's Ease of Doing Business Report 2018³, India's rank has leapfrogged 30 spots to 100th position out of 190 nations. The country has improved its ranking in six out of ten parameters - dealing with construction permits, getting credit, protecting minority investments, paying taxes, enforcing contracts and resolving insolvency. This is expected to further promote investor confidence and aid growth in the country. This along with the Moody's upgrade of India's rating is a positive reaffirmation of the various reform measures undertaken by the government over the last three to four years.

However, the uncertainty following demonetization and GST implementation has impacted the near-term growth prospects. Nonetheless, the government has been doing a lot of ground work and has laid a solid foundation for future. The demonetization of high value currency notes in November 2016 came in as a sudden shock with the impact panning out more clearly in quarter 4 growth numbers for 2016-17. In 2016-17, GDP growth declined through the year from 7.9% in quarter 1 to 6.1% in quarter 4. The uncertainty surrounds implementation of Goods and Services Tax impacted industrial production during the months of May and June - which saw companies undertaking destocking.

Government is keeping a close watch on the economic challenges. There have been several developments/announcements off late which will augur well for growth prospects going ahead. Latest projections indicate some loss of optimism in growth estimates for the current fiscal year. Even though multilateral agencies such as World Bank and ADB have pegged India's growth for 2017-18 at 7.0%; the Reserve Bank of India in its fourth bi-monthly monetary policy statement⁴ revised down growth projection for the year to 6.7% as opposed to the earlier estimate of 7.3% (August 2017). The country is also witnessing some critical structural shifts which are expected to push the growth frontier over the course of next few years. India is at the cusp of a major digital transformation which will bring in massive opportunities. With this we also expect to see large volume of businesses moving into the formal sector. On the global front, outlook for growth has improved and trade is also expected to pick up in 2017 and 2018. This is likely to have a salutary impact on India's overall exports.

Reserve Bank of India in the latest monetary policy assessment (announced December 6, 2017)⁵ has increased CPI inflation rate projection to 4.3%-4.7% for the second half of the year; the forecast made in August ranged between 3.5%-4.5% for the same period. Reserve Bank is wary of how inflation will shape up in the remaining part of the year and cites upside risks to prices. The government has been vigilant of the price situation and has taken several measures over time to

³ World Bank's Ease of Doing Business Report 2018 Accessed at <http://www.doingbusiness.org/data/exploreeconomies/india>

⁴ Reserve Bank of India in the latest monetary policy assessment accessed at https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42476

⁵ Reserve Bank of India in the latest monetary policy assessment accessed at https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42476

keep a check on the price levels. The government earlier this year also gave approval to the public procurement policy which will give preference to domestically manufactured goods and thus give push to 'Make in India' initiative. The policy will provide much needed impetus to the domestic manufacturing sector by promoting greater indigenization and domestic value addition. Also, a new manufacturing policy is on the anvil which will replace Manufacturing Policy 2011 and will be aligned with the needs of Industry 4.0. The policy is expected to be announced soon.

As per the latest data, India's merchandise exports increased by 9.0% over the cumulative period April to October 2017 as compared to (-) 0.1% growth reported over the corresponding period in 2016. The improvement in external demand conditions is supporting India's exports. In fact, our cumulative exports to major destinations like Americas and Asia and even Africa and Oceania have noted an increase during the first seven months of the fiscal year 2017-18. Imports, on the other hand, observed 22.9% growth over the period April-October 2017 as compared to (-)10.1% growth reported over the same period in 2016. The reform oriented approach of government has reinvigorated the interest of foreign investors in India. Foreign investment inflows in to India continue to remain robust. As per DIPP, provisional estimates for 2016-17 report foreign direct investment inflows at US\$ 60.1 billion, an 8.1% increase over the same period last year. Foreign direct investment inflows in to India amounted to US\$ 45.1 billion in 2014-15 and US\$ 55.5 billion in 2015-16. Cumulative foreign direct investment inflows in the first quarter of 2017-18 amounted to USD 14.5 billion. Further, the net portfolio investments have been robust in 2017. However, equity outflows have been noted during August-September on account of geo-political uncertainties and expected normalization of Fed asset purchases.

The world output and trade volumes are expected to expand in 2017 and 2018. The improved outlook for global growth and global trade will have a positive impact on India's export performance. Further, the mid-term review of the Foreign Trade Policy 2015-20 was announced recently⁷. The policy review is encouraging and extends further support to exporters.

Since 2014, the government of India has introduced several reform measures and initiatives, both through the legislative and executive routes. The reforms have been broad-based encompassing wide range of areas including taxation, subsidies, labour, infrastructure, finance, investments as well as governance. Various campaigns initiated by Government (Make in India, Digital India, Smart Cities, Skill India) and measures taken towards ease of doing business have been encouraging. These programmes offer tremendous investment opportunities. India has significant inherent strengths - demographic dividend, good natural resource base, huge consumer market and the government is assiduously trying to leverage these advantages in the best possible manner. Going ahead, the country will continue to remain on the radar of foreign investors and FDI flows are expected to remain robust. The fDi Intelligence, a division of The Financial Times Ltd, in its recently released fDi Report 2017 ranks India as the number one recipient of greenfield FDI investment in 2016 and the country remained ahead of China and United States. Most of the policy reforms that have been undertaken will bring transparency and enhance efficiency. This is critical to strengthen the growth and development pillars of our economy.

⁶ Make in India Initiative website accessed at <http://www.makeinindia.com/home>

⁷ Press Information Bureau Release, Government of India, Ministry of Commerce and Industry accessed at <http://pib.nic.in/newsite/PrintRelease.aspx?relid=174117>

An Overview of the Japanese Economy and latest developments

Macroeconomic Indicators	
GDP (Official exchange rate)	\$4.73 trillion (2016 est) 3rd largest in the world
GDP – Real Growth rate	0.5% (2016 est.)
GDP – Purchasing Power Parity (PPP)	\$4.932 trillion (2016 est.)
GDP - Per capita income	\$38,900 (2016 est.)
Population	126,702,133 (July 2016 est.)
Area	total: 377,915 sq. km country comparison to the world: 62
Exchange Rate (yen (JPY) per US\$)	107.1 (2016 est.)
Currency	Yen (JPY)
Gold and Foreign Exchange reserve in USD	\$1.233 trillion (31 December 2015 est.)
Total Trade with ROW (2016 est.)	\$1,271.2 billion
Total Exports (2016 est.)	\$641.4 billion
Total Imports (2016 est.)	\$629.8 billion
Inflation	-0.1% in 2016 est
Inward FDI stock (2016 est.)	\$204.3 billion
Outward FDI stock (2016 est.)	\$1.418 trillion
GDP Composition (2016)	
Agriculture	1.2%
Industry	27.7%
Services	71.1%
Labor Force	
Agriculture	2.9%
Industry	26.2%
Services	70.9%
Development Indicators	
Literacy Rate	99.0%
Human Development Index	0.891
Gini Index	37.9 (2011)
Ease of Doing Business Rank	34

Source: CIA WORLD FACT SHEET

According to the OECD, growth of the Japanese economy has increased to 1.5% in 2017 supported by stronger international trade and fiscal stimulus. It is expected that fiscal consolidation will recommence in 2018⁸. The OECD has projected the growth to stay put at 1 % in 2018 and 2019 caused by a robust export growth. In a similar fashion, inflation will be around 1% in 2018 and 1 ½ % in 2019. Based on reports of the working age population declining, there is an expected increase and possible peaking of employment in 2018.

According to the IMF in its Annual review of the Japanese economy suggested that due to aging population and a declining workforce, the country has to increase the speed of its reforms to enhance wages, productivity as well as growth⁹. As per this report, the Japanese economy is expected to grow at 1.3 % due to similar reasons cited in the OECD report.

According to the Bank of Japan, the economy will continue to expand due to 'highly accommodative financial conditions' as well as the impact of the government's huge financial stimulus accompanied by the growth of other economies world over¹⁰. In this context, Japanese economy is expected to grow at this moderate pace and maintain its growth throughout 2018. The bank of Japan has retained its monetary policy program unchanged at its recent meeting in October 2017 matching market expectations. The Bank of Japan has announced that it will continue the stimulus program officially titled as the quantitative and qualitative monetary easing with yield curve control framework so as to reach the 2% inflation target by 2020.¹¹ According to the AT Kearney's report on Global Economic Outlook 2017-21, Japan is following unconventional monetary policy to stimulate domestic growth¹². According to ADBI (Asian Development Bank Institute), The Bank of Japan had always been a front-runner in terms of implementing unconventional monetary policies from the late 1990s to 2006. Because of Japan's long-standing demand shortage and mild deflation, various tools were implemented during this time, including a zero interest rate policy, forward guidance, and quantitative easing.¹³

According to Japan's growth strategy released during the G20 Hamburg meeting in 2017, on the fiscal side, in March 2017, the Diet- Japanese Parliament passed the FY2017 budget, with the total amount of 97.5 trillion yen, or 18 percent of GDP.¹⁴ According to the International Monetary Fund, Abenomics has enriched economic conditions and stimulated the necessary environment for structural reforms but has not yet realised a definitive exit from deflation.¹⁵ In fact it commended that economy has expanded at an incredible pace over and above its potential in the last five quarters and also pointed out that unemployment has dropped to low levels. In fact unemployment has fallen to a 25 year low and job/applicant ratio is at an all-time high according to the IMF.¹⁶ The key to this turnaround lies in the rising global demand as well as the government's short term financial stimulus provided for relief.

⁸ OECD economic forecast accessed at: <http://www.oecd.org/eco/outlook/economic-forecast-summary-japan-oecd-economic-outlook.pdf>

⁹ IMF Report accessed at <https://www.imf.org/en/Publications/CR/Issues/2017/07/31/Japan-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-45149>

¹⁰ Bank of Japan Outlook accessed at <https://www.boj.or.jp/en/mopo/outlook/gor1710b.pdf>

¹¹ Nikkei Report accessed at <https://asia.nikkei.com/Politics-Economy/Economy/BOJ-stands-pat-as-Japan-s-economy-gathers-steam>

¹² Report by AT KEARNEY accessed at <https://www.atkearney.com/documents/10192/10777831/GBPC+Global+Economic+Outlook+2017-2021.pdf/>

¹³ ADB Publication accessed at <https://www.adb.org/sites/default/files/publication/225571/adbi-mission-incomplete-reflating-japan-economy.pdf>

¹⁴ Ministry of Finance Report accessed at <http://www.mofa.go.jp/files/000272312.pdf>

¹⁵ IMF Report accessed at <https://www.imf.org/en/Publications/CR/Issues/2017/07/31/Japan-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-45149>

¹⁶ IMF Report accessed at <https://www.imf.org/en/News/Articles/2017/07/31/NA073117-For-Japan-Economy-Now-Is-the-Time-to-Step-Up-Reforms>

Abenomics was launched in 2013 by the Japanese PM Shinzo Abe to pull Japan out of two decades of economic and financial stagnation.¹⁷ Prime Minister Abe launched a 'comprehensive economic policy package' in order to resuscitate the Japanese economy while at the same time maintained fiscal discipline as well. In fact according to the Government of Japan, the centrepieces of Abenomics have been three policy measures:¹⁸ Aggressive monetary policy; Flexible fiscal policy and Growth strategy including structural reform.

According to the Government of Japan, Abenomics has achieved remarkable progress in setting the economy on course to overcome deflation and make a steady recovery. Nominal GDP is at record high of 543 JPY tn. The number of employed persons female is at 64.6 mn with an increase by 1.9 mn with the unemployment rate being at 2.8% which is lowest in 23 years. The corporate ordinary profit is at 75.0 JPY tn, private non-residential investment is 82.5 JPY tn and tax revenue expanded to 57.7 JPY tn (increase by 15.4 JPY tn from 42.3 JPY tn)¹⁹. The intentions behind this Abenomics strategy have been fourfold: to boost productivity through a productivity revolution and human resource development revolution; to pursue regulatory reforms; To build on international opportunities and improve business environment to drive inward FDI.

Apart from these initiatives, Japan is actively incorporating growth from around the world. Japan intends to make available free, fair and ruled based markets across the world. In their view, the GOP intends to meet global infrastructure needs with Japan's quality infrastructure which will contribute to Japan's as well as partner countries growth.²⁰

The next step to improving the economy is to improving business environment to drive inward FDI. The GOI intends to bring in drastic reforms within the corporate culture of Japan.²¹ Infact, the government of Japan is of the view that 'growth is meaningless without its sustainability'. The government intends to strengthen investor confidence by bringing about transparent measures such as drawing up a corporate governance code, formulation of a stewardship code and elimination of overlaps in the disclosure rules and expedite provision of information.²²

According to the Doing Business Report 2018, Japan ranks at 34th position with respect to setting up a business²³. The government of Japan has taken several measures to attract foreign businesses to invest in Japan. These measures are three fold:²⁴ Promises for attracting foreign businesses in Japan; Policy Package for promoting foreign direct investment into Japan to make Japan a global hub; Measures taken to reinvigorate the Japanese economy.

Promises for attracting foreign businesses in Japan: The Japanese PM Abe through the Council for the promotion of Foreign Direct Investment in 2015 adopted the following measures to improve Japan as an investment destination.

- Removing language barriers at retailers and restaurants
- Improving internet connectivity
- Receiving business jets at regional airports
- Enhancing educational environment for expatriate children
- Strengthening consultation services for foreign businesses by state ministers

¹⁷ Abenomics brief accessed at <https://www.japan.go.jp/abenomics/about/>

¹⁸ Ibid

¹⁹ Abenomics brief accessed at <https://www.japan.go.jp/abenomics/>

²⁰ Abenomics brief accessed at <https://www.japan.go.jp/abenomics/opportunity/>

²¹ Abenomics brief accessed at <https://www.japan.go.jp/abenomics/business/>

²² Ibid

²³ Doing Business Index by World Bank accessed at <http://www.doingbusiness.org/data/exploreconomies/japan>

²⁴ JETRO Investment Report accessed at https://www.jetro.go.jp/en/invest/gov_efforts.html

Policy Package for promoting foreign direct investment into Japan to make Japan a global hub

- Simplification of regulations and administrative procedures pertaining to foreign companies
- Accept highly skilled foreign professionals ie green card system
- Improvement of living environment for foreign nationals and more

Measures taken to reinvigorate the Japanese economy

- Reduced the effective corporate tax rate below 30% mark
- Reinforced corporate governance
- Reform of bedrock regulations ie. Healthcare sector reform, electricity and gas market reform and pilot initiatives in national strategic zones
- Relaxation of requirements for expatriates to be accredited as highly skilled professionals

Japan offers attractive opportunities for investors: cost competitiveness, a business-friendly environment, advanced technology and infrastructure, and a highly-skilled workforce. Global businesses can benefit from one of the world's largest, most dynamic economies, as well as easy access to the Asia-Pacific. Japan welcomes investment from foreign companies. The Ministry of Economy, Trade and Industry (METI) is now taking a variety of measures to promote foreign direct investment in Japan.²⁵

In order to promote Japanese investment in Japan, invest Japan initiative focusses on the following key areas:

1. Make Japan the best country in the world to do business
2. Steadily improve Japan's investment environment through Abenomics
3. Promote comprehensive regulatory reform of agriculture, medical service, energy and employment sectors
4. Reduced effective corporate tax rate
5. Formulate a governance code

Promoting economic diplomacy as a means of driving the growth of the Japanese economy is key to Japan's foreign policy focus now. In 2016, the Government of Japan advanced economic diplomacy from the three aspects of: (1) rulemaking to strengthen a free and open international economic system, (2) supporting Japanese companies' overseas business expansion by promoting public-private cooperation, and (3) promoting resource diplomacy and attracting investment and tourists.²⁶

²⁵ Note on Invest Japan by Ministry of Economy, Trade and Industry accessed at: http://www.meti.go.jp/english/policy/external_economy/investment/index.html

²⁶ Diplomatic Bluebook 2017, Ministry of Foreign Affairs accessed at <http://www.mofa.go.jp/policy/other/bluebook/2017/html/chapter1/c0102.html>



India-Japan Relations

India-Japan Relations

India and Japan relations have only strengthened over the last few years despite global and regional geo-political developments taking place in the international arena. Leaders of both countries have laid out a vision document for the future with the largest potential for growth, into a deep, broad-based and action-oriented partnership, which reflects a broad convergence of their long-term political, economic and strategic goals titled 'India Japan Vision 2025'.

Few months before, the Japanese PM Shinzo Abe paid an official visit to India on 13-14 September 2017 at the invitation of PM Modi for the Annual Prime Ministerial Summit Meeting. Both the leaders discussed a wide array of issues under the 'special strategic and global partnership' between the two democracies in tandem with the vision document released in 2015. This visit was preceded by PM Narendra Modi's visit to Japan at the invitation of PM Shinzo Abe, Prime Minister of Japan in 2016. The two Prime Ministers held wide-ranging consultations on 11 November 2016, in Tokyo, during which they undertook a comprehensive review of the Special Strategic and Global Partnership as outlined in the vision document 'India Japan Vision 2025'. Both these visits are part of the transformative relationship that began since the beginning of the 21st century in 2000 when annual Prime Ministerial summits were conceived. The idea for a 'Special Strategic and Global Partnership' was arrived in the year the 2014 during the 9th Annual Prime Ministerial summit meeting between PM Narendra Modi and PM Shinzo Abe.

In addition to the bilateral engagement, Japan engages with India on various multilateral platforms such as G20, UN, the Asia Africa Growth Corridor, the Quadrilateral to name a few. India, Japan and Australia recently stressed their commitments to peace, democracy, economic growth and a rules-based order in the Indo-Pacific region during the fourth India-Japan-Australia trilateral dialogue in New Delhi.

With the aim to work together for the benefit of the Indo-Pacific region, India, Australia, US and Japan; that comprise the proposed "quadrilateral" coalition held their first official talks in Manila, in November 2017 on the side-lines of the ASEAN Summit. Through this quadrilateral partnership the four super powers aim at creating a free, open, prosperous and inclusive Indo-Pacific region serves the long-term interests of all countries in the region and of the world at large.

Overview of Commercial and Economic Cooperation

The signing of CEPA- Comprehensive Economic Partnership Agreement in 2011 has helped in transforming the relationship between the two countries especially to further promote trade, investment and commercial rapport that already exist. In addition to increasing commercial activities, the CEPA intended to eliminate tariffs on 90 percent of Japanese exports to India, including auto parts and electric appliances, and 97 percent of imports from India, such as agricultural and fisheries products, until 2021.²⁷

CEPA has had an impact on trade between India and Japan, which has increased from USD 10.4 billion in 2010 (before the coming into effect of the CEPA) to USD 14.5 billion in 2016²⁸. Although some studies predicted the impact to be around US\$24 billion by 2013, the influence of the introduction of CEPA, has impacted the India-Japan merchandise trade by an increase in 38 percent²⁹. However, in the subsequent years, India's merchandise exports started contracting in four out of five years between 2012-13 and 2016-17³⁰. As a result, India's trade deficit with Japan has now widened to \$5.9 billion against \$2.7 billion in 2013-14³¹. In 2016-17, India's exports to Japan contracted 17.5%, and its imports fell by 1%.

The India-Japan Joint Committee constituted under the CEPA has been reviewing suggested amendments to the CEPA. While India is seeking better market access in Japan for its pharmaceuticals as well as marine and organic products, Japan had requested India to remove restrictions on steel imports (including Minimum Import Price and safeguard duty) and the Minimum Alternate Tax (MAT) on Special Economic Zones (SEZs) which have been recently resolved.

Bilateral loan through Overseas Development Assistance

ODA-Overseas Development Assistance has been extended to India since 1958. In fact, it is important to note here that Japan is the largest bilateral donor to India. India has a huge infrastructure deficit and Japan has experience in handling long-term, low-cost funds for infrastructure projects in emerging markets in the form of official development assistance ("ODA") loans, distributed through policy institutions such as the Japan International Cooperation Agency ("JICA") and Japan Bank for International Cooperation ("JBIC").

Japanese ODA provisions for India's determination for accelerated economic development particularly in import areas like power, transportation, environmental projects and projects linked to basic human needs. According to the GOI, in the forthcoming decade the ODA assistance will transform India through various infrastructure projects such as the Chennai-Bengaluru Industrial Corridor (CBIC), Mumbai-Ahmedabad High Speed Rail (MAHSR), the Western Dedicated Freight Corridor (DFC) as well as Delhi-Mumbai Industrial Corridor with twelve new industrial townships. Delhi metro is an excellent example of ODA Assistance.

The cumulative amount of loan assistance received by India from Japan (in the form of ODA loans)

²⁷ Study by ORF accessed at <http://www.orfonline.org/research/india-japan-economic-partnership-agreement-gains-and-future-prospects/>

²⁸ FICCI Report India Trade and Investment Report

²⁹ Study by ORF accessed at <http://www.orfonline.org/research/india-japan-economic-partnership-agreement-gains-and-future-prospects/>

³⁰ Report by Livemint accessed at <http://www.livemint.com/Politics/S7iA23p9KRrKMiWiy7YbqI/Indias-exports-to-Japan-halve-to-385-billion-in-four-year.html>

³¹ Ibid

is JPY 3,600 billion as of 2011. Between the years 2010 and 2014, the total ODA disbursements by Japan in favour of India were as follows:

Table: Japanese Official Development Assistance (ODA) to India (Gross Disbursements)

Fiscal year	Loan Aid	Grant Aid	Technical Cooperation
2010	480.17	11.59	22.12
2011	2898.37	2.78	34.69
2012	3531.06	1.04	33.01
2013	3650.59	16.62	43.62
2014	1186.43	2.17	37.76
2015	3664.78	1.58	48.38
2016	3713.50	1.10	159.50

Source: mofa.go.jp

Note: 1. The yearly figures for Loan Aid and Grant Aid are based on the amount of assistance agreed to through exchange of notes during the fiscal year.

However, Grant Assistance for Japanese NGOs, Cultural Grassroots and Grassroots Human Security projects within Grand Aid depends on grant contracts (G/C).

A yearly figure for Technical Cooperation indicates the amount of fund disbursed from the budget of JICA, relevant ministries and local governments in the fiscal year.

Note: 2. The figures for Technical Cooperation between the fiscal year 2011 and 2014 indicate the amount of Technical Cooperation carried out by all relevant authorities, while the amount of Technical Cooperation implemented by JICA is noted in brackets.

The figures for the fiscal year 2015 show only the amount of Technical Cooperation implemented by JICA.

Note: 3. Accumulated totals may not always add up due to rounding

India-Japan Act East Forum

In pursuance of the Memorandum of Cooperation to establish the India-Japan Act East Forum signed on 14th September 2017 during the visit of Prime Minister Abe to India, Ministry of External Affairs and Embassy of Japan held the first joint meeting of the Forum on 5th December 2017. The meeting was co-chaired by Foreign Secretary Dr. S. Jaishankar and the Japanese Ambassador to India Mr. Kenji Hiramatsu.

The Act East Forum aims to provide a platform for India-Japan collaboration under the rubric of India's "Act East Policy" and Japan's "Free and Open Indo-Pacific Strategy". The Forum will identify specific projects for economic modernization of India's North-East region including those pertaining to connectivity, developmental infrastructure, industrial linkages as well as people-to-people contacts through tourism, culture and sports-related activities. Besides the Ministry of External Affairs and the Embassy of Japan, participants included representatives from Ministry of Development of North Eastern Region (DONER), Department of Economic Affairs in the Ministry of Finance, Ministry of Road Transport and Highways, Ministry of Home Affairs and the States of North-East region from the Indian side, and Japan International Cooperation Agency, Japan External Trade Organization, Japan Foundation and Japan National Tourism Organization from the Japanese side.

Japan Plus

Shri Narendra Modi, Hon'ble Prime Minister of India, and Shri Shinzo Abe, Hon'ble Prime Minister of Japan, announced the India–Japan Investment Promotion Partnership at Tokyo, on 1 September 2014. Under this Partnership, Japan has offered to invest 3.5 trillion Yen (US \$ 33.5 Billion) in India by way of public and private investment and financing over the next five years. The Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, Government of India, has set up “Japan Plus”, a special management team to facilitate and fast track investment proposals from Japan to achieve this goal. Japan Plus is operational from 8th October, 2014. “Japan Plus”, comprises four representatives from Government of India and three representatives from Government of Japan.

Role of Japan Plus

- Supports Government of India in initiating, attracting, facilitating, fast tracking and handholding Japanese investments across sectors.
- Provide updated information on investment opportunities across sectors, in specific projects and Japan Industrial Townships in particular.
- Japan Plus is in constant touch with existing Japanese companies in India to highlight their concerns to the relevant Government Department/Ministries for an early resolution. All the issues showcased till date have been acknowledged, aligned with the concerned Government Department (Centre or State) and resolved. On an average Japan Plus assists 20 Japanese companies per month.
- Japan Plus is the Nodal cell in the Government of India to co-ordinate & collate investment proposals being pursued by all Ministries/Departments / State Governments.
- Assistance to Core-Group: A Core-group has been set up under the chairmanship of Cabinet Secretary with Secretaries of 17 Ministries/Departments to realize 3.5 trillion Yen. These include Railway Board; Ministry of External Affairs; Dept of Economic Affairs, Dept of Expenditure, Dept of Financial Services; Dept of Revenue; Ministry of Medium, Small & Micro Industries; Department of Commerce; Ministry of Urban Affairs; Ministry of Textiles; Dept of Defence Production; Dept of Electronics & Information Technology; M/O Food Processing; D/O Heavy Industries; D/O science and technology; D/O Industry Policy and Promotion, NMCC.
- Japan Plus provide assistance to Core-Group 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.
- An institutional mechanism has been set up for resolution of issues faced by Japanese Companies working in India. This is facilitated by JCCII (Japan Chamber of Commerce & Industry in India) in consultation with DIPP. Japan Plus provides assistance for this.

Trade Relations

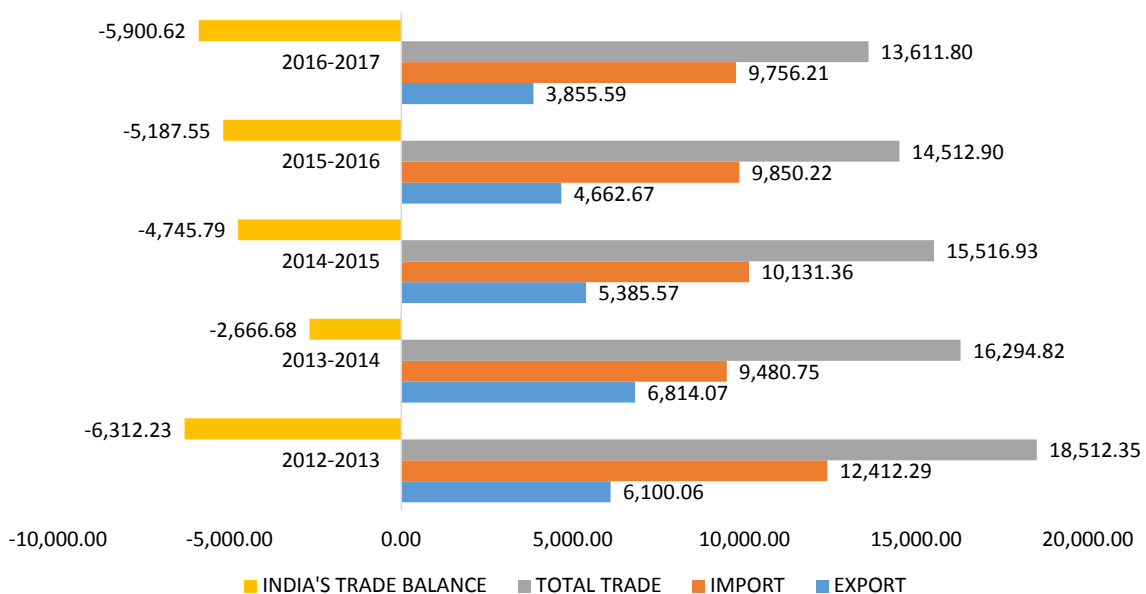
Japan ranks at the 12th position amongst India's top trading partners. Bilateral trade between India and Japan has increased from about US\$ 4 billion in financial year 1999-2000 to US\$ 14.517 billion during financial year 2015-16. The share of the India-Japan bilateral trade has been approx. 1% of Japan's total foreign trade, while it was in the range of 2.2 to 2.5% of India's total trade in the last couple of years.

Table 1: India- Japan Bilateral Trade

Year	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Export	6,100.06	6,814.07	5,385.57	4,662.67	3,855.59
Import	12,412.29	9,480.75	10,131.36	9,850.22	9,756.21
Total Trade	18,512.35	16,294.82	15,516.93	14,512.90	13,611.80
India's Trade Balance	-6,312.23	-2,666.68	-4,745.79	-5,187.55	-5,900.62

Source: Department of commerce

Figure 2: India Japan Bilateral Trade



Source: Department of commerce

India, being the second-most-populous country in the world, and having one of the fastest-growing economies in Asia, offers attractive opportunities for investment and partnership, especially in the infrastructure sector, to Japan which has an abundance of capital and the presence of strong construction, transport and machinery companies. In the past, companies such as Suzuki and Honda, have partnered with Indian companies and have become household names in India. The lasting success of these companies is evidence that there is untapped potential in the India-Japan bilateral trade and investment relationship. Analysing what India exported to Japan from 1999-2000 till 2015-16, the major heads are mineral fuels, ores, fish and crustaceans and other aquatic invertebrates, organic chemicals, machinery and machinery parts, iron and steel etc. Exports from India to Japan are US\$ 3,855.59 million in 2016-17.

India's major exports to Japan have been primary products, listed below:

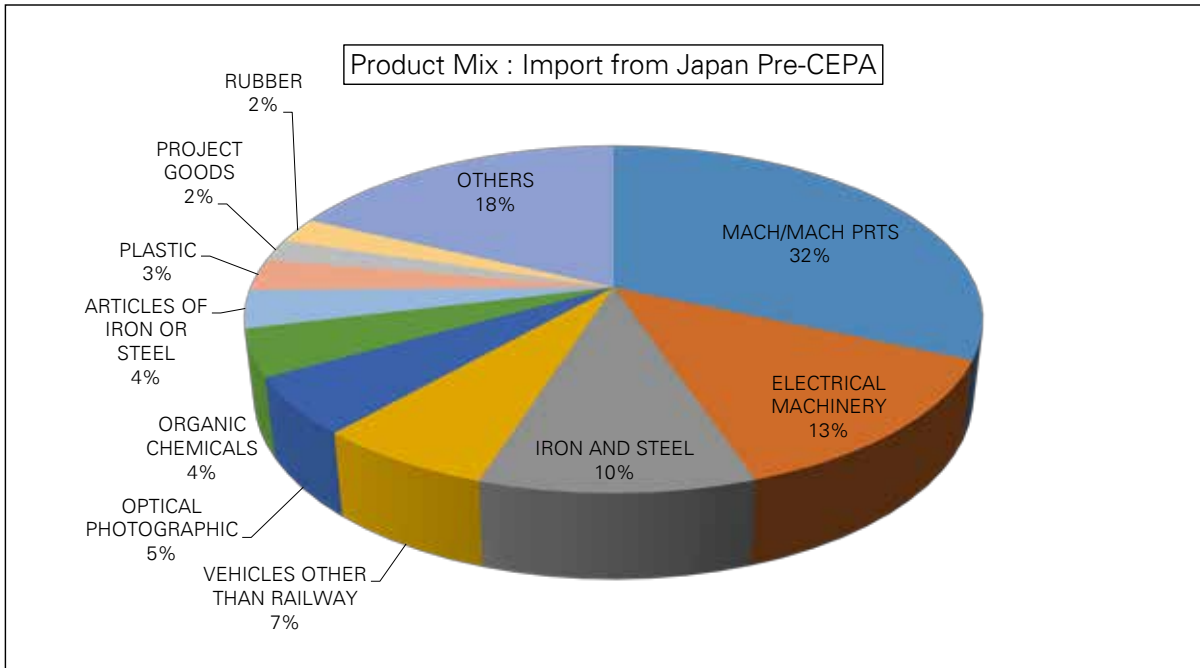
S.No.	HSCode	Commodity	2015-2016	2016-2017	%Growth
1	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	1,178.80	564.10	-52.15
2	3	Fish and crustaceans, molluscs and other aquatic invertebrates	396.32	383.51	-3.23
3	29	Organic chemicals	374.50	414.64	10.72
4	89	Ships, boats and floating structures.	338.21	0.01	-100.00
5	71	Natural or cultured pearls, precious or semiprecious stones, pre. Metals, clad with pre. Metal and artcls thereof; imit. Jewelry; coin	249.00	310.70	24.78
6	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	216.39	268.10	23.90
7	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof.	178.99	166.70	-6.87
8	62	Articles of apparel and clothing accessories, not knitted or crocheted.	153.24	148.57	-3.05
9	72	Iron and steel	141.87	155.61	9.68
10	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts.	113.36	99.26	-12.44

Source: Ministry of Commerce, Government of India

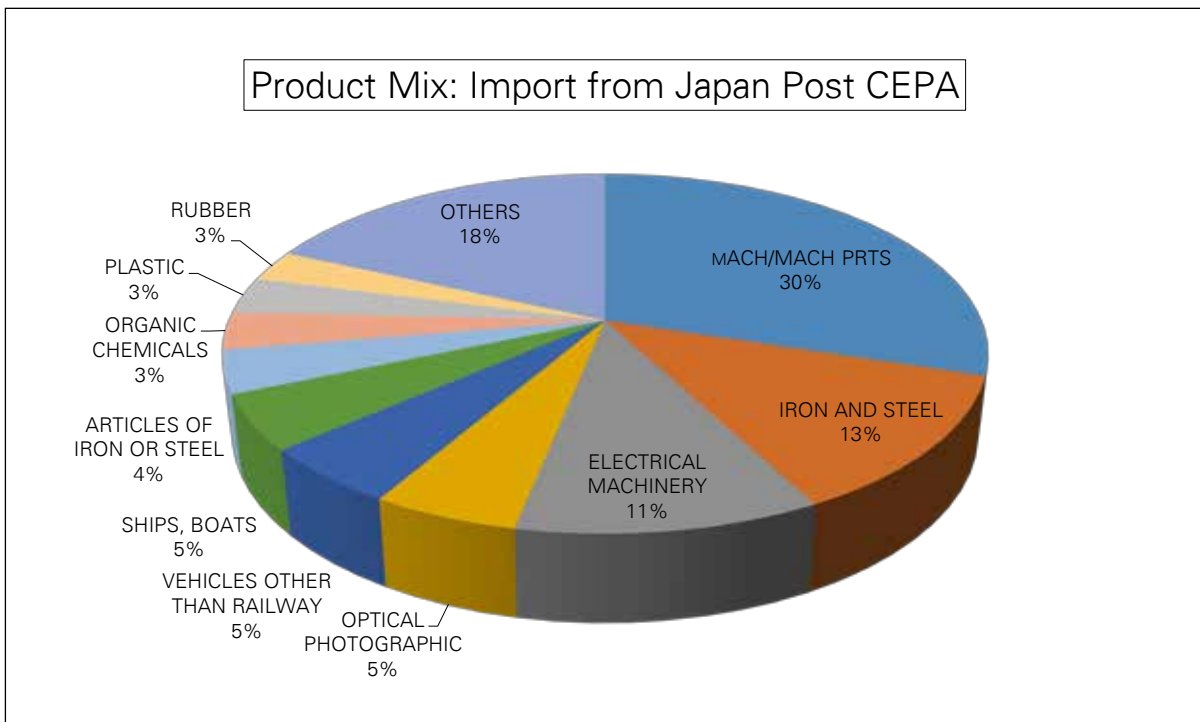
A similar analysis for change in product mix for Japanese Imports into India has been carried out. A comparison of Imports from Japan, pre CEPA and that after CEPA is depicted in the following charts. Imports by India from Japan for 2016-17 are US\$ 9,756.21 million. Major import items from Japan are as below:

S.No.	HSCode	Commodity	2015-2016	2016-2017	%Growth
1	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	2,395.03	2,784.12	16.25
2	72	Iron and steel	1,490.42	930.55	-37.56
3	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts.	1,104.46	1,141.44	3.35
4	39	Plastic and articles thereof.	609.26	697.68	14.51
5	90	Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. And apparatus parts and accessories thereof;	571.48	639.60	11.92
6	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof.	520.80	573.10	10.04
7	89	Ships, boats and floating structures.	419.73	447.34	6.58
8	29	Organic chemicals	407.64	419.83	2.99
9	73	Articles of iron or steel	360.95	377.46	4.58
10	98	Project goods; some special uses.	244.97	164.54	-32.83

Source: Ministry of Commerce, Government of India



Source: Ministry of Commerce, Government of India



Source: Ministry of Commerce, GOI

Investment Relations

It was announced in September 2014 during Prime Minister Modi's visit to Japan whereby the prime ministers of both the countries established a goal of doubling Japanese foreign direct investment ("FDI") inflows in India and the number of Japanese companies in India within the next five years (as part of the 'Japan-India Investment Promotion Partnership'). In the financial year 2015-2016, India has received FDI of USD2613.68 million from Japan, and as of October 2015, there were 1229 Japanese companies registered in India. With the establishment of the new government under Prime Minister Modi in May 2014 the elevation of Japan to a strategic partner and the commitment of both countries to cooperate in the areas of economic development, investment, environmental protection, energy and defense, amongst other areas, the economic and investment relations between India and Japan are likely to accelerate upwards in the coming years.

Japan is the third largest investor to India with 7.77 percentage of total FDI Flows into India amounting to US \$ 25.67 billion Japanese FDI to India. Cumulative FDI inflows (including equity, re-invested earnings & other capital): from April 2000 to March 2017, are US\$ 484.35 billion Country & sector specific details of re-invested earnings and other capital are, however, not centrally maintained by the Reserve Bank of India (Data on re-invested earnings and other capital is available only from April 2000, and is estimated by RBI, on an average basis, based upon data for the previous two years).

Cumulative FDI Equity Inflows (remittance-wise) received during April 2000-17 (up to December 2017) were Rs.1,787,022 crores (US\$ 331.99 billion) excluding amount remitted on RBI's-NRI Schemes. Out of this, FDI inflows from Japan (which rank 3rd) are Rs. 142,259.65 crores (i.e. US\$ 25.67 billion), which represents 7.73% of the cumulative inflows received (this amount does not include inflows received prior to April 2000, as such data prior to that date was not centrally maintained by the RBI). Further, project, country & sector specific FDI equity inflows data, in respect of Japan, is available only from April 2000 onwards.

FINANCIAL YEAR-WISE INFLOWS OF FOREIGN DIRECT INVESTMENT:

Financial Year (April-March)	FDI equity inflows From JAPAN		FDI equity inflows from all Countries *		Total FDI inflows (including equity, re-invested earnings & other capital) **
	Rs. in crores	US\$ in million	Rs. in crores	US\$ in Million	(US\$ in million)
2000-01	976.64	223.66	10,733	2,463	4,029
2001-02	808.78	177.68	18,654	4,065	6,130
2002-03	1,970.96	411.87	12,871	2,705	5,035
2003-04	360.45	78.36	10,064	2,188	4,322
2004-05	575.19	126.24	14,653	3,219	6,051
2005-06	925.07	208.29	24,584	5,540	8,961
2006-07	382.47	84.74	56,390	12,492	22,826
2007-08	3,336.41	815.20	98,642	24,575	34,843
2008-09	21,692.58	4,469.95	142,829	31,396	41,873
2009-10	5,670.40	1,183.40	123,120	25,834	37,745
2010-11	7,062.98	1,562.00	97,320	21,383	34,847
2011-12 ^	14,089.09	2,971.70	165,146	35,121	46,556
2012-13	12,243.42	2,237.22	121,907	22,423	34,298
2013-14	10,549.58	1,717.75	147,518	24,299	36,046
2014-15	12,751.83	2,084.23	189,107	30,931	45,148
2015-16	17,275.49	2,613.68	262,322	40,001	55,457
2016-17 (April 2016- March 17)	31,588	4,709	291,162	43,356	60,184
Cumulative Total (April 2000- December 2017)	142,259.65	25,675.42	1,787,022	331,991	484,351

FDI COUNTRY NOTE ON JAPAN FROM DIPP

Note:

- *These amounts include the inflows received through FIPB/SIA route, acquisition of existing shares, RBI's automatic route and RBI's – NRI schemes.
- The amount of FDI equity inflows, in respect of country/sector specific data was not provided by RBI, Mumbai, prior to April 2000.
- ^ Inflows for the month of March, '12 are as reported by RBI, consequent to the adjustment made in the figures of March, '11, October, '11.
- **Country & sector specific details on 're-invested earnings' and 'other capital' are, however, not centrally maintained by the Reserve Bank of India.
- **Data in respect of 'Re-invested earnings' & 'Other capital' for the years 2009-10, 2010-11, 2011-12, 2012-13 & 2013-14, 2014-15 are on an estimated basis. It is estimated by RBI as an average of the previous two years.

SHARE OF TOP SECTORS ATTRACTING FDI EQUITY INFLOWS FROM JAPAN

(from April 2000 to March 2016):

(Amount of FDI equity inflows)

Rank	Sector	Amount of FDI equity inflows		% age of FDI equity inflows from JAPAN
		Rs. in crores	US\$ in million	
1	Drugs & Pharmaceuticals	22,080.91	4,463.48	21.29
2	Automobile Industry	21,925.43	4,021.99	19.18
3	Services Sector*	18,021.87	3,257.85	15.54
4	Metallurgical Industries	7,383.68	1,538.40	7.34
5	Electrical Equipments	5,586.68	1,094.31	5.22
Total of Above		74,998.57	68.57	68.57

FDI COUNTRY NOTE ON JAPAN FROM DIPP

(*)Star refers here Fin.,Banking,Insurance,Non Fin/Business,Outsourcing,R&D,Courier,Tech. Testing and Analysis, Other

DETAILS OF TOP FDI INFLOWS RECEIVED FROM JAPAN (remittance-wise)

(through Indian companies, from April 2000 to March 2016):

Sl. No	Name Of Indian Company	FDI Route	Name Of Foreign Collaborator	Rbi Regional Office	Item of manufacture	Amount of FDI Inflows	
						(In Rs crore)	(In US\$ million)
1	Ranbaxy Laboratories Ltd.	RBI	Daiichi Sankyo Co. Ltd.	Region Not Indicated	Manufacture of chemical substances used in the manufacture of pharmaceuticals	6,818.66	1,401.42
2	Ranbaxy Laboratories Ltd.	RBI	Daiichi Sankyo Co. Ltd.	Region Not Indicated	Manufacture of chemical substances used in the manufacture of pharmaceuticals	6,037.01	1,240.77
3	Jsw Steel Ltd.	RBI	Jfe Steel Corporation	Mumbai	Manufacture of semi finished iron & steel products nec	4,800.72	1,060.26
4	Ranbaxy Laboratories Ltd.	RBI	Daiichi Sankyo Co. Ltd.	Region Not Indicated	Manufacture of chemical substances used in the manufacture of pharmaceuticals	3,539.14	722.28
5	Ranbaxy Laboratories Ltd.	RBI	Daiichi Sankyo Co. Ltd.	Region Not Indicated	Manufacture of chemical substances used in the manufacture of pharmaceuticals	3,409.22	700.69
6	Suzuki Motor Gujarat Private Limited	RBI	Suzuki Motor Corporation	Ahmedabad	Manufacture of passenger cars	3,100.00	460.95
7	Reliance Life Insurance Company Ltd	RBI	Nippon Life Insurance Company	Region Not Indicated	Life insurance health insurance & annuity business	2,761.61	543.02

Sl. No	Name of Indian Company	FDI Route	Name of Foreign Collaborator	RBI Regional Office	Item of Manufacture	Amount of FDI Inflows	
8	Reliance Life Insurance Company Limited	RBI	Nippon Life Insurance Company	Region Not Indicated	Life insurance	2,265.62	338.04
9	Toshiba Transmission & Distribution Syst	RBI	Toshiba Corporation	Hyderabad	Manufacture of transformers	1,633.00	273.39
10	Renault Nissan Automotive India Pvt Ltd	RBI	Nissan Motors Company	Chennai	Manufacture of transport equipment & parts	1,477.00	274.67
11	Reliance Capital Asset Managem Ltd	RBI	Nippon Life Insurance Company	Region Not Indicated	Financia,asset management & portfolio management	1,449.98	260.98
12	Anchor Electricals Pvt Ltd	FIPB	Matsushita Electric Works Ltd	Region Not Indicated	Electrical products.	1,440.83	341.85
13	Kotak Mahindra Bank Ltd	RBI	Sumito Mitsui Banking Corporation	Mumbai	Banking activities including financial services	1,366.12	303.47
14	Indusind Bank Ltd.	RBI	Various Investors	Mumbai	Deposit activities (this group includes activities of central banks, commercial banks, savings banks)	1,304.83	209.60
15	Honda Siel Cars India Ltd	RBI	Asian Honda Motor Co Ltd	New Delhi	Manufacture of motor cars	1,300.00	213.07
16	Honda Siel Cars India Ltd	RBI	Honda Motor Co Ltd	New Delhi	Manufacture of motor cars	1,200.00	215.98
17	Telco Construction Equipment Co Ltd	RBI	Hitachi Construction Machinery Co Ltd	Region Not Indicated	Mfg construction equipment	1,159.50	260.56
18	Renault Nissan Automotive India Pvt Ltd	RBI	Nissan Motor Co Ltd	Chennai	Manufacture of passenger cars	1,044.03	169.20
19	Maruti Udyog Ltd	FIPB	Suzuki Motor Co. Ltd.,	New Delhi		1,000.00	208.33
20	Max New York Life Insurance Co. Ltd	RBI	Mitsui Sumitomo Insurance Co. Ltd	Region Not Indicated	Life insurance business	984.41	175.69
21	Max New Tork Life Insurance Company Ltd	RBI	Mitsui Sumitomo Insurance Company Ltd	Region Not Indicated	Life insurance	984.41	185.65
22	Reliance Capital Asset Management Limite	RBI	Nippon Life Insurance Company	Region Not Indicated	Management of mutual funds	817.73	122.01
23	Claris Otsuka Limited	FIPB	Otsuka Pharmaceutical Factory, Inc	Ahmedabad	Manufacture of drugs, medicines & allied products	787.80	125.78

Sl. No	Name of Indian Company	FDI Route	Name of Foreign Collaborator	RBI Regional Office	Item of Manufacture	Amount of FDI Inflows	
24	India Yamaha Motors Pvt Ltd	RBI	Yamaha Motor Co Ltd	New Delhi	Manufacture of children's bicycles, tricycles including perambulators	750.00	169.03
25	Reliance Capital Asset Management Ltd	RBI	Nippon Life Insurance Company	Region Not Indicated	Fund management activities	657.02	105.21
Grand Total						52,088.64	10,081.90

FDI COUNTRY NOTE ON JAPAN FROM DIPP

Japanese Projects in India

India is one of Japan's oldest and most important development partners. Japan's contribution to the development of India is based on our shared values of democracy, human rights and market economy. Japan's cooperation is predicated on the complementarity of our strengths and gaps in financial, technological and human resources. Development cooperation between the two countries is an important component of "Japan-India Special Strategic Global Partnership. As per the recent Country Assistance policy³² for India is concerned, the following key areas have identified in terms of overall focus of Japanese ODA.

Enhancing connectivity

With a view to de-bottleneck the infrastructure constraints to investment and growth, Japan will support development of transportation hub and network infrastructure in the areas of railways (including high speed railways and metros) and national highways (including express ways) as well as electricity and other infrastructure to strengthen connectivity among major industrial cities and economic zones as well as regional connectivity. Realization in concrete terms of regional economic development initiatives such as the Delhi-Mumbai Industrial Corridor (DMIC) and the Chennai-Bengaluru Industrial Corridor (CBIC) will also be promoted. In addition, Japan will promote cooperation on the enhancement of regional connectivity including in the Northeast region, which has been confirmed at the bilateral summit meeting.

Strengthening industrial competitiveness

Strengthening of the industrial competitiveness, especially in the manufacturing sector, is the key to secure sustainability of India's economic growth. Manufacturing will create new jobs to absorb the young productive population, enhance the technological foundation of the economy and increase productivity. From such viewpoint, Japan will support key infrastructure development including power generation, transmission and distribution, energy efficiency, quality highways, port and water supply and sewage in order to contribute to strengthening industrial competitiveness including manufacturing sector. Japan will also provide assistance to promote foreign direct investment and to strengthen human resource development in such areas as business management, higher education and practical skills.

³²Overview of Japan-India Relations, Ministry of Foreign Affairs of Japan accessed at http://www.in.emb-japan.go.jp/itpr_en/Japan_India_Relations.html

Supporting sustainable and inclusive growth

Although high growth is an imperative, it has to become sustainable and the fruit of growth needs to be shared and enjoyed by the society on a broad and equitable basis. Japan will work on the provision of assistance which contributes to poverty reduction and social sector development such as improvement of basic social services (including health, sanitation, water supply and sewage), infrastructure development addressing urbanization, and income generation programmes for the poor (including improvement of small-scale infrastructure, enhancement of agricultural productivity and establishment of food value chain). Japan will also promote cooperation in such areas as water supply and sewage, afforestation, and disaster management to tackle environment and climate change issues.

Other considerations (1) Under the “Japan-India Special Strategic Global Partnership,” ODA cooperation aims for a win-win (mutually beneficial) solution as partners on an equal footing instead of simply positioning the relationship as a donor and a recipient. (2) Japan is cognizant of India’s basic stance regarding non-acceptance of tied-aid and the imperative of international competitive bidding in its procurement policy. At the same time, we will work to promote incomparable Japanese technologies and expertise to be introduced and transferred to India through development cooperation projects and programmes. (3) Under the programme-based approach, policy matrices are mutually agreed through close and continuous policy dialogue; monitoring and review are conducted; and projects are guided by its progress. This will allow greater flexibility in the management of projects, and enhance sense of ownership by the recipient country, and ensure accountability on quantitative targets, concrete steps and outcomes. Japan will gradually promote the programme-based approach, as appropriate. (4) It is noted that close people-to-people exchanges will be promoted in various areas through development cooperation. (5) The gender equality will be noted in formulating projects in order to achieve equal and inclusive society.

JICA’s Pivotal Role in supporting India’s development initiatives

JICA has been one of the most important development partner organisations from Japan and has been providing development assistance to India for varied projects. Their assistance primarily covers technical cooperation, development study/technical cooperation for development planning, loan and grant aid.

On August 1, 2011, a Comprehensive Economic Partnership Agreement between Japan and India went into effect, and 2012 is a memorable year of the 60th anniversary of Japan-India diplomatic relations. JICA is providing assistance to realize Japan-India cooperation such as the Delhi-Mumbai Industrial Corridor (DMIC) and the Chennai-Bengaluru Industrial Corridor (CBIC) in South India, as well as assistance to strengthen Japan-India academic-industry networks, and human resources development for industries such as manufacturing. JICA is extending its assistance to contribute to stronger relations between Japan and India.

Although the spectrum of projects supported by JICA is diversified, some of the key focus areas/sectors of focus for their recent and ongoing projects in India include:

1. Programme based assistance
2. Health and medical care
3. Transportation
4. Power and Energy
5. Private Sector Development
6. Agriculture and Rural Development
7. Urban and regional development
8. Urban Environment Management³³

Spectrum of projects in India

Some of the major Indian states where JICA is actively engaging³⁴ through providing assistance include in the north Delhi NCR, Uttar Pradesh, Himachal Pradesh, Uttarakhand primarily focussing on water conservation and management, transportation, sewage, forest resource management and disaster risk management.

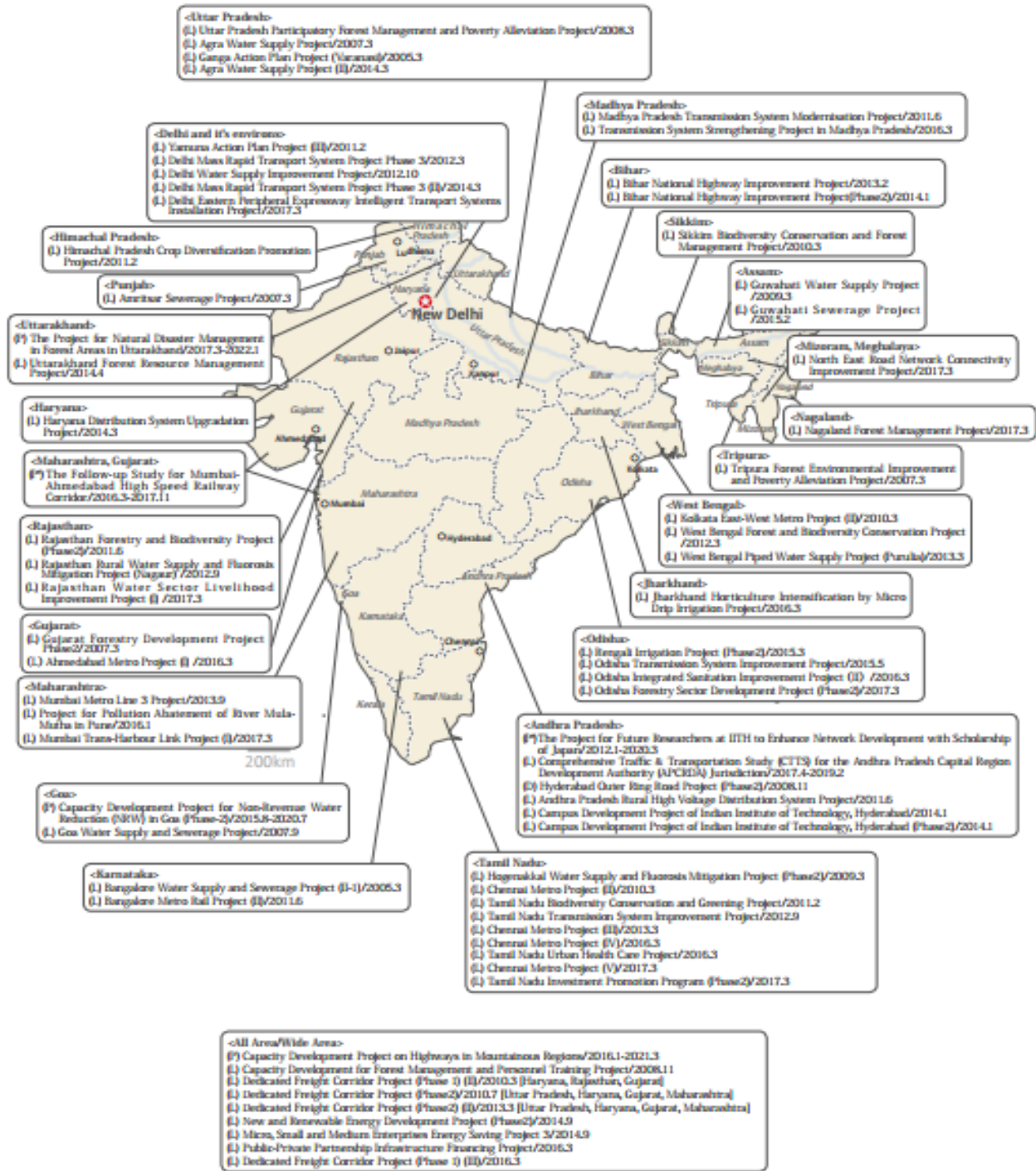
In western region, JICA is providing assistance to projects in the 3 key states of Rajasthan, Maharashtra and Gujarat. The focus of assistance provided here is railway and freight corridors, forest conservation, distribution system upgradation, metro projects and water conservation.

JICA support is actively present in Southern India across the states of Andhra Pradesh, Goa, Karnataka, and Tamil Nadu where the focus of project assistance includes water supply and sewage projects, traffic and transportation management, campus development projects, bio-diversity conservation, metro projects, healthcare among others. Please see below a detailed map of the JICA projects in India.³⁵

³²JICA Activities in India accessed at: <https://www.jica.go.jp/india/english/activities/activity.html>

³³Map of JICA's Major Projects in India accessed at https://libportal.jica.go.jp/library/Data/PlanInOperation-e/EastSouthAsia/054_India-e.pdf

³⁴Map of JICA's Major Projects in India accessed at: https://libportal.jica.go.jp/library/Data/PlanInOperation-e/EastSouthAsia/054_India-e.pdf



Source: JICA

Special Focus on Development of India's North East region

Although the spread of projects across India is concerned, JICA presence is Pan India, however, they are increasingly now focussing on the development of India's northeast region and have recently provided assistance for development projects in the north eastern states.³⁶ Infact in the year 2017, JICA has already extended ODA Loan of approximately INR 4,000 Crores for the North-East Road Network Connectivity Improvement Project (Phase I).³⁷

Some of the recent key ODA transactions between India and Japan are as follows:

On December 12, 2015, India and Japan executed a Memorandum of Understanding ("MoU") on High Speed Railways (HSR) whereby it was agreed that Japan will fund 80% of the cost of the flagship Mumbai- Ahmedabad bullet train project through a soft loan of JPY 1 trillion at an interest rate of 0.1%, with a tenure stretching over 50 years and a moratorium period of 15 years.

- On January 13, 2016, JICA signed an ODA loan agreement with the Government of India ("Gol") to provide an ODA loan of up to JPY 19.064 billion for the Project for Pollution Abatement of River Mula-Mutha in Pune. JICA's assistance will entail construction of a sewer network of over 113 km, 4 sewage pumping stations and 11 sewerage treatment plants of 396 million litres per day (MLD) combined capacity in order to bridge the gap between sewerage being generated (728 MLD) and that being currently treated (476 MLD).

Currently, JICA is involved in 19 projects to enhance sewerage and water facilities in various areas, such as Delhi, Bengaluru, Agra, Amritsar, Varanasi, Jaipur, Nagaur district (Rajasthan) and Goa, among others, with a cumulative ODA loan assistance of over JPY 490,695 million. On March 4, 2016, JICA signed an agreement with the Gol for JPY 102.415 billion for the Ahmedabad and Chennai metro projects for building environment friendly urban traffic networks and designs that take into account the needs of the elderly and disabled.

- On March 11, 2016, JICA signed an ODA loan agreement with India Infrastructure Finance Company Limited ("IIFCL") to provide up to JPY 50,000 million for 'PPP Infrastructure Financing Project'.
- On March 31, 2016, JICA signed ODA loan agreements with the Gol to provide JPY 175.106 billion for assistance in five projects, including: supporting sewerage services in Odisha; constructing a dedicated freight corridor; supporting farmer horticulture in Jharkhand; contributing to health care in Tamil Nadu; and supporting stable power supply in Madhya Pradesh.
- Hitachi, Toshiba, Mitsubishi and JGC Corporation led consortiums have been selected by the Japanese Government for the construction of 'eco-cities' and related works along the Delhi Mumbai Industrial Corridor (DMIC) in the Ahmedabad region. These 'eco-cities' will be constructed pursuant to DMIC Development Corporation's pact with Japan External Trade Organization (JETRO) for collaboration in environment-related projects around the DMIC project area. They will be funded by JBIC which will invest JPY 7,759 million in Phase-1 of the DMIC under a loan agreement with IIFCL concluded in 2009.

³⁶JICA Press Release accessed at <<https://www.jica.go.jp/india/english/office/topics/press170807.html>>

³⁷JICA Press Release accessed at <https://www.jica.go.jp/india/english/office/topics/press170331_01.html>

On December 12, 2015, India and Japan inked a MoU concerning the Agreement on Cooperation in the Peaceful Uses of Nuclear Energy. They also signed the agreement concerning transfer of defense equipment and technology cooperation for making available defense equipment and technology necessary to implement joint research, development and / or production projects. An agreement concerning security measures for the protection of classified military information was also signed between the two countries for the reciprocal protection of classified military information transmitted to each other, provided the same is consistent with the national laws and regulations of the Country receiving the information.

- In January 2016, ministers from India and Japan issued Joint Statement of the 8th Japan-India Energy Dialogue, which recognized the need to promote renewable energy and energy conservation techniques. India has acknowledged that cooperation in energy sector should be such that Japanese technology and capital can be dovetailed with Indian high skilled human resources and the 'Make in India' campaign to create mutually beneficial partnerships, between the two countries.
- Negotiations on the purchase of 12 Utility Seaplane Mark 2 (US-2) amphibian aircrafts by India from Japan are in their final stages. The manufacturer of US-2 amphibian aircraft, Shin Maywa Industries, Ltd., has initiated discussions with Indian counterparts in anticipation of the possibility of assembling the aircraft within India. India plans to use these aircrafts for patrolling the Andaman and Nicobar islands and search and rescue operations.



**FICCI Initiatives in alignment with GOI's agenda
towards promotion of India-Japan Relations**

FICCI Initiatives in alignment with GOI's agenda towards promotion of India-Japan Relations

FICCI has always put a lot of emphasis on this partnership and has been supplementing Government of India's efforts through its holistic agenda with Japan. In fact, FICCI is the only industry association with an office in Japan.

In November 2017, FICCI received the Japanese Foreign Minister's commendation's recognizing its work in promoting India-Japan bilateral trade and economic relations and nurturing friendship and goodwill between Japan and the world. The Ambassador of Japan to India hosted a reception at his residence, Embassy of Japan to confer the certificate of Foreign Minister's Commendation on FICCI. In his welcome speech, Ambassador mentioned that FICCI continues to inspire Japan & cultivate our relationship with initiatives in areas of defence, space programmes among others. Former FICCI President Pankaj Patel received the certificate from Ambassador Hiramatsu on behalf of FICCI and expressed his gratitude for receiving this honour. In his acceptance speech, he thanked Ambassador Hiramatsu and his team who have always collaborated and cooperated with FICCI for all its endeavours with Japan. FICCI Past Presidents including Dr. Jyotsna Suri, Mr Harshpati Singhania and Mr RV Kanoria were present for the ceremony. Mr Onkar Kanwar, Chairman, IJBCC and Mr Rohit Rellan, Co-Chair, IJBCC also attended the ceremony.

The spectrum of activities with Japan includes engaging with the political leadership, enabling businesses, producing knowledge work and policy initiatives, synergising with the state and provinces, engaging on a track two diplomacy and promoting people to people connect as well as new initiatives. The key partners of FICCI in Japan include JETRO (Japan External Trade Organisation), JCCI (Japan Chamber of Commerce and Industry), JCCII (Japan Chamber of Commerce and Industry in India) and SPF (Sasakawa Peace Foundation).

Following are some of the key FICCI initiatives with Japan in the focus areas in line with government's agenda:

There was a FICCI CEOs delegation that accompanied the FM to Japan in June 2016. The delegation was represented by industry and business heads from diversified sectors and senior government officials. FICCI hosted a business meeting with the Japanese PM, Shinzo Abe during his recent visits to India. In December 2015, FICCI jointly organised the Japan India Innovation seminar in honour of Japanese PM. In January 2014, FICCI jointly organised a business meeting with CII and ASSOCHAM in honour of Japanese PM. FICCI hosted India Japan Economic Forum in partnership with JETRO during the visit of Mr Shinzo Abe, Japanese PM to India and Mr Kono Taro, Minister of Foreign Affairs, Japan

India Japan Joint Business Cooperation Committee – IJBCC was set up in 1966 to stimulate bilateral trade, investment and technological transfers through sectoral consultations. Japan was the first

country to have the institutional arrangement of JBC. Through a focused approach, each JBC to be theme based as well as entail business match making. The last meeting, the 41st IJBCC meeting was held in Tokyo – Oct 2015, which was also addressed by the Hon'ble Chief Minister of MP. FICCI plans to organize the 42nd IJBCC meeting in New Delhi in January, 2018

FICCI organizes regular interaction with Japanese CEOs based in India to understand their issues, views on investment scenario and success stories. FICCI has worked with JCCII on taxation issues and submitted its report to the Government of India.

Defence and security relations between India and Japan have evolved steadily over the past few years and now constitute a strong pillar of the India – Japan strategic partnership. FICCI's defence committee has been consistently working to strengthen industry cooperation between India and Japan in the defence sector. There is tremendous scope for redefining the contours of the bilateral defence cooperation by way of transfer of, and collaboration on co-development and co-production of projects related to defence equipment and technology.

In this context, FICCI coordinated a high powered defense and aerospace delegation to Japan on 4-5 September 2017 accompanying Hon'ble Defense Minister during the 3rd India-Japan Joint Working Group Meeting. The visit comprised of B2B meetings on Defense Industry Cooperation between India and Japan including visits to key ministries, meeting key Japanese companies in this sector and site visits. In order to engage with the Japanese defence industry FICCI along with key Indian companies participated at the 3rd Meeting of India – Japan Joint Working Group on Defence Equipment & Technology Cooperation in September, 2017, Tokyo, Japan. The members of this delegation included key private and public sector companies from this sector including Cochin Shipyard, Bharat Heavy Electricals, TATA Advanced Systems Ltd, Larsen and Tubro among other companies. FICCI is now working on a space programme and is looking at Japan as a partner country for this programme in partnership with Japan Aerospace Exploration Agency (JAXA).

Although governments of both sides share a very strong relationship which has only grown in the recent past, there is a need for stronger engagement between Members of Parliament of the two countries. As 2017 is the Year of 'Japan-India Friendly Exchanges', through FICCI's Forum of Parliamentarians, FICCI has been organizing interactions between Indian MPs and Japanese Ambassador and MPs. FICCI hosted Mr Kono Taro, Foreign Minister of Japan at Federation House, New Delhi. FICCI also organised an India-Japan FOP delegation led Ms Poonam Mahajan to Japan from 14-18 May, 2017 to further strengthen parliamentary diplomacy between the two nations.

There is a strong focus on growing cooperation in the field of women empowerment and healthcare by both prime ministers and to create a "society where all women shine" which was also elaborated in the Joint Statement on India and Japan Vision 2025. FICCI's ladies organisation (FLO) is the apex body of industry and commerce in India and represents Indian women entrepreneurs from diverse sectors. FLO has built a strong relation with Japan. In fact its women business leaders and entrepreneurs from diversified fields visited Japan in September to understand their political, cultural and economic nuances especially with respect to women participation in these areas. FLO also brought up the "Gender parity index", A Tool Kit to Evaluate Gender Diversity & Empowerment of Women in the Formal Sector in India'

FICCI has been collaborating with Sasakawa Peace Foundation (SPF) to promote the state/province

level connectivity by facilitating the visit of Chief Minister or state leader from India to Japan.

- FICCI coordinated the visit of a 10-member Haryana State Mission led by Mr. S S Dhillon, Chairman, HSIIDC in Haryana
- FICCI coordinated a high powered business delegation accompanying then Chief Minister of Gujarat Mr Narendra Modi
- Japan was a partner country for this year's "Bengal Global Business Summit"
- Hon'ble Chief Minister of Madhya Pradesh Mr Shivraj Singh Chouhan addressed the 40th IJBCC meeting in Japan

FICCI also collaborates and organised several meeting at the provincial level in Japan.

- Business meeting in honour of Mr. Hideaki Omura, Governor, Aichi Prefecture – July 14, 2015
- Business meeting in honour of Mr. Eikei Suzuki, Governor, Mei Prefecture – May 2014
- Business meeting for Pharma mission from Toyama – Feb 13, 2013
- Business meeting in honour of Mr. Takakazu Ishii, Governor Toyama Prefecture and accompanying delegation - 17th December 2012
- FICCI Mission to Toyama – Sep 2013
- Business meeting in honour of Mr. Ogawa, Governor Fukuoka Prefecture and accompanying delegation – November 23, 2012

Policy advocacy: FICCI is actively involved in providing knowledge inputs, especially based on Indian Industry's view on various trade agreements including the following:

- **India Japan Financial Dialogue:** FICCI provided inputs on behalf of Indian industry for the 4th India- Japan Financial Dialogue. The issues highlighted by FICCI included with-holding charges and inverted duty structure
- **India Japan CEPA:** FICCI presented Indian industry issues with respect to India-Japan CEPA. The issues highlighted pertained to Indian IT and pharma companies with respect to market access and early conclusion of MRAs.
- **The knowledge inputs include writings on:** 'All aboard, it's much more than a Mumbai-Ahmedabad train ride' by Dr Sanjaya Baru, Secretary General, FICCI published in Economic Times, September 19, 2017; 'India-Japan: Partners in Growth' by Mr Onkar Kanwar, Chairman, IJBCC and Past President, FICCI published in Economic Times (September 14, 2017); FICCI Business Digest article on CEO's Mission accompanying FM, July edition; Report on 'India Japan: A Snapshot of Economic and Investment Relations' during 41st IJBCC (24 October 2016).
- **India-Japan Partnership for African Development:** The idea of India-Japan cooperation for African development was one of the key deliverables highlighted in the joint statement between India and Japan signed during Prime Minister Modi's official visit to Japan last year.

Under the overall vision of Asia-Africa Growth Corridor, FICCI is reaching out to Indian industry to identify actual projects where Indian and Japanese companies can collaborate in Africa. To further capitalize on this and create substantive projects, FICCI as a leading industry chamber has decided to reach out to Indian industry and identify actual projects where Indian and Japanese companies can collaborate in Africa

- Cooperation in the education sector also places great importance in the cooperation agenda for government. This includes institutionalised exchange of doctoral and post-doctoral research fellows, and encouraged movement of professors and faculty between India and Japan. Projection of 10,000 young Indian talents visiting Japan under such frameworks as students exchange, IT training and short term exchanges in next 5 years. In order to boost educational exchanges between India and Japan, FICCI is in conversation with IIM Bangalore to establish an India-Japan Study Centre (IJSC) with the following objectives: Conduct Japan-related research/studies/work on how to enhance investment and trade between the two countries. System of guest faculty exchanges. Guest speakers from Japan-related think-tanks/research institutes/eminent industrialists/academia could be invited to IJSC. Develop a business development programme for Japanese executives who are to assume assignments in India.
- The implementation Social Security Agreement between India and Japan has favourably impacted the profitability and competitive position of Indian and Japanese companies with foreign operations in either countries by reducing their cost of doing business abroad. The need to sign a social security agreement between India and Japan was first suggested by the members of the India-Japan Business Cooperation Committee (IJBCC) which was later signed in Tokyo on November 16, 2012.
- Japanese pharmaceutical market offers great potential for the Indian pharma industry, which has a well-established reputation for producing affordable generics. A fast track movement to iron out the remaining issues hampering access will be useful as the share of generics in Japan is increasing and India's capability to meet this demand can be a win-win for both countries. Prime Minister Modi expressed that the target regarding quantitative share of generic medicines in Japan would be an excellent opportunity for collaboration between Indian and Japanese pharmaceutical companies FICCI has been at the forefront of promoting brand pharma and has in the recent past organised the biggest pharmaceutical show called 'Brand India Pharma' show at the Interphex and Inpharma trade show in Tokyo in 2014 with participation of over 100 pharma companies. On the policy front, FICCI presented issues faced by Indian pharma industry while doing business with Japan before the CEPA negotiations.



The Way forward

The Way forward

The last few years in India-Japan relations have been unprecedented in terms of significant developments leading to engagements both on a bilateral and multilateral level. The recent visit of Prime Minister Shinzo Abe have certainly set a very progressive tone to this developing relationship which would only strengthen as we move closer towards releasing the “India-Japan Vision 2025”. The target for doubling Japanese investment within five years, committing US\$ 35 billion for different infrastructure projects to bolster the Make in India programme set by Prime Minister Abe is indicative of the strong economic partnership envisaged the two leaders.

Moving towards releasing India-Japan Vision 2015: Key sectors for Industry Cooperation

I. Infrastructure

Lending for development, particularly infrastructure, has grown nearly sixfold since 2001 — totaling ₹366 billion in 2015. The two nations are working together on infrastructure projects that include the \$100 billion Delhi-Mumbai Industrial Corridor and a Japanese bullet train to run between Mumbai and Ahmedabad in Modi’s home state of Gujarat.

Foreign direct investment by Japanese companies has also soared, reaching \$3.7 billion in 2016 — its second-highest level ever. Though it slipped this year, over the past decade it has totaled \$25.8 billion, a nine-fold increase over the previous 10-year period.

Japan is also playing important role in infrastructure development in the northeast. In April 2017, the Japan International Cooperation Agency (JICA) signed an agreement with the Union government in New Delhi to provide over 67 billion yen (\$610 million) for Phase I of the North East Road Network Connectivity Improvement Project, which will see the enhancement of important projects in Meghalaya and Mizoram.

Areas of Cooperation between India and Japan

1. Opportunity in High speed railways project

It is a giant leap in terms of technology for India which has Asia’s largest rail network. The project has a deadline of 2022. It entails high technology transfer, creation of many jobs and is aligned with PM’s flagship project

2. Collaborating to develop Japanese Industrial Townships

Four locations finalised for development of Japanese Industrial Townships – in Gujarat, Rajasthan, Andhra Pradesh and Tamil Nadu. This project will provide immense opportunity for industry to collaborate for development of these townships

II. Defence Manufacturing

Defence and security relations between India and Japan have evolved steadily over the past few years and now constitute a strong pillar of the India – Japan strategic partnership.

There is tremendous scope for redefining the contours of the bilateral defence cooperation by way of transfer of and collaboration on co-development and co-production of projects related to defence equipment and technology.

Areas of Cooperation between India and Japan

- India and Japan have agreed to collaborate closely in defence production, including on dual- use technologies
- Collaboration in the field of defence equipment and technology cooperation for production of various military platforms.
- India is keen to source defense technologies from Japan both for the purposes of India buying (from Japan) and any possibility of India domestically manufacturing with their technologies.

III. Energy with focus on renewable energy

India's power demand is going to expand four fold in the next 15 years to become one of the largest energy markets globally and it would open immense business opportunities for Japan in the sector in India, hence making this bilateral engagement mutually beneficial for both countries.

With a focus on Renewable energy sector, creating a sustainable framework for encouraging the manufacturing of solar equipment's in India at less costs so as to make 24x7 Affordable and Quality power available to each citizen in India is the mandate of the government. This will also give a fillip to the Make in India mission by scaling up manufacturing sector in India with the help of cutting edge

Japanese technologies in the power sector. India should leap frog the learning curve with the help of contemporary next generation technologies and should not miss out on the opportunities to provide sustainable energy future to every citizen.³⁸

Areas of Cooperation between India and Japan

- India and Japan should cooperate on long term contracts for LNG with a defined cost of energy which would provide a stabilizing factor for the Renewable Energy thrust that India is currently giving.
- India being a price sensitive market cannot afford costly power and hence needs Japanese cooperation in maintaining a balance between renewable energy and conventional coal based power.
- Japanese technology and capital can be dovetailed with Indian high skilled human resources and "Make in India"

³⁸ Press Information Bureau Release, Government of India, Ministry of Power accessed at <http://pib.nic.in/newsite/PrintRelease.aspx?relid=156220>

IV. Skill Development

Skill development certainly forms one of the cornerstones of the future of India-Japan cooperation, even from an industry point of view. In November 2016, the Ministry of Economy, Trade and Industry (METI) and the Ministry of Skill Development and Entrepreneurship (MSDE), India, concluded a Memorandum of Corporation on the Manufacturing Skill Transfer Promotion Programme (MOC). According to the MOC, on June 27, 2017, METI certified vocational training institutes in India organized by four Japanese companies as members of the Japan-India Institute for Manufacturing (JIM). These are the first certified members of JIM.

METI certified the following vocational training institutes for human resource development, which are organized by Indian affiliate companies of four Japanese companies: Suzuki Motor Corporation, Toyota Motor Corporation, Daikin Industries, Ltd. and Yamaha Motor Co., Ltd.. These are the first certified members of JIM.³⁹

The Japanese government's official lending arm JICA also decided to provide financial assistance of around Rs 130 crore for building a modern convention centre in Varanasi in 2017. The Project for Construction of the International Cooperation and Convention Centre in Varanasi was part of the Japan-India joint statement in November 2016 when Modi had visited Japan.

Areas of Cooperation between India and Japan

- Cooperation for Japan-India Institutes of Manufacturing (JIMs): JIM is a collaboration between the Governments of Japan and India along with Japanese companies to create a pool of skilled manpower for manufacturing units in India.
- India will send three lakh youth to Japan for on-job training for 3-5 years as part of the government's skill development programme. These youth will work in the Japanese ecosystem and get employment opportunities there along with accommodation facility

V. Auto and Auto components

Japanese manufacturers are increasingly using India to make products destined for other emerging countries. Many of Japan's major automakers are already selling India-made vehicles in Africa, while Hitachi Construction Machinery Co. has started distributing its machines in Africa after a joint venture with Tata Group went well, according to the Japan External Trade Organization.

Japanese manufacturers have flooded into auto clusters in Haryana and Rajasthan, near Delhi, and into western Gujarat and southern Chennai.

³⁹ Website of the Ministry of Economy, Trade and Industry accessed at <http://www.meti.go.jp>

Areas of Cooperation between India and Japan

- A number of automakers including Maruti Suzuki and Toyota Kirloskar Motor, have touted hybrid technology as the “link” that would eventually help garner acceptance amongst customers and suppliers for electrically powered vehicles.
- Japanese automaker Suzuki Motor Corporation, which has 56.21 percent stake in the country’s largest carmaker Maruti Suzuki India, has announced expansion of its capacity at its plant in Hansalpur, Gujarat, along with laying the foundation stone for the country’s first lithium-ion battery manufacturing plant.
- Production of Next generation hybrid and electric vehicles: Toshiba, Suzuki Denso will jointly set up a factory to make automobile batteries for electric vehicles in Gujarat.



Shardul Amarchand Mangaldas

CENTURY of EXCELLENCE

**Snapshot of the recent developments between India
and Japan with highlights on recent regulatory
developments and key indicators on certain state
incentives**

contributed by Shardul Amarchand Mangaldas & Co

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Snapshot of the recent developments between India and Japan with highlights on recent regulatory developments and key indicators on certain state incentives

1. Recent regulatory developments

(i) Liberalizing the foreign investment regime

- The Indian government has been taking various steps to attract foreign investment in India. One of the steps is liberalization of the foreign investment regime.
- Foreign Direct Investment (FDI) is one of the major drivers of economic growth and is an important aspect for the economic development of India. The positive steps taken by the Indian government in recent past have resulted in increased FDI inflows in India.
- The Foreign Direct Investment Policy, 2017 (FDI Policy) in India is an investor friendly policy, under which FDI up to 100% is permitted on the automatic route in most of the sectors/activities.
- India has the potential to attract much more foreign investment by further liberalizing and simplifying the FDI regime. Therefore, the Indian government has introduced a number of amendments in the FDI Policy, amongst others, so as to provide ease of doing business in India.
- The Union Cabinet has recently given its approval to a number of amendments to the FDI Policy³⁸. The amendments include the following:
 - o 100% FDI has been allowed under automatic route for single brand retail trading.

Single brand retail trading entities have been permitted to set off their incremental sourcing of goods from India for global operations during initial 5 years, beginning 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India. After completion of this 5 year period, the entity will be required to meet the 30% sourcing norms directly towards its India's operation, on an annual basis.

Non-resident entities, whether owner of the brand or otherwise, are permitted to undertake single brand product retail trading in India for the specific brand, either directly by the brand owner or through a legally tenable agreement executed between the Indian entity undertaking single brand retail trading and the brand owner.

- o Foreign airlines have been allowed to invest up to 49% under approval route in Air India, subject to the conditions that (a) foreign investments in Air India including that of foreign airlines shall not exceed 49% either directly or indirectly, (b) Substantial ownership and effective control of Air India shall continue to be vested in Indian National.

³⁸<<http://pib.nic.in/PressReleaseDetail.aspx?PRID=1516115>>

- o It has been clarified that real-estate broking service does not amount to real estate business and is therefore eligible for 100% FDI under automatic route.
- o Foreign Institutional Investors (FIIs) / Foreign Portfolio Investors (FPIs) have been allowed to invest in Power Exchanges through primary market as well.
- o Issue of shares against non-cash considerations like pre-incorporation expenses, import of machinery etc. have been permitted under automatic route in case of sectors under automatic route.
- o For investments in automatic route sectors, requiring approval only on the matter of investment being from country of concern, FDI applications will now be processed by the Department of Industrial Policy & Promotion (DIPP) for government approval. Cases under the government approval route, also requiring security clearance with respect to countries of concern, will continue to be processed by concerned Administrative Department/ Ministry.
- Further, the Reserve Bank of India (RBI) had, in November, 2017 issued the Foreign Exchange Management (Transfer and Issue of Security by a Person Resident Outside India) Regulations, 2017 (New FEMA 20) to replace the Foreign Exchange Management (Transfer and Issue of Security by a Person Resident Outside India) Regulations, 2000 (Old FEMA 20) and the Foreign Exchange Management (Investments in Firms or Proprietary Concern in India) Regulations, 2000 (FEMA 24). Old FEMA 20 and FEMA 24 have now been subsumed into the New FEMA 20. A snapshot of the key changes introduced under the New FEMA 20 is provided below³⁹:
 - o Foreign Investment Defined: The New FEMA 20 introduces for the very first time a definition of 'foreign investment' and categorizes it into 'foreign direct investment' and 'foreign portfolio investment'. Foreign Investment will mean any investment made by a person resident outside India on a repatriable basis in capital instruments of an Indian company or to the capital of a limited liability partnership. Additionally, the New FEMA 20 segregates foreign investments made in unlisted and listed Indian companies. As per the New FEMA 20, all foreign investments made in unlisted Indian companies irrespective of any threshold limit will be considered as FDI. Any foreign investment of 10% or more of a listed Indian company will also qualify as FDI. However, any foreign investment of less than 10% of the post issue paid-up share capital of a listed Indian company on a fully diluted basis or of less than 10% of the paid up value of each series of capital instruments of a listed Indian company will now be considered as FPI and not FDI. Rationalization brought in through these new definitions have opened a new route for non-residents to invest in a listed Indian company up to a limit of 10%;
 - o Removal of Cap on Dividend On Preference Shares: The cap on dividend (i.e., 300 basis points over the State Bank of India's prime lending rate) that can be paid by Indian companies on preference shares issued to non-residents has been removed;
 - o Issuance of Share Warrants: Share Warrants shall be issued by Indian companies in accordance with the regulations issued by the Securities and Exchange Board of India. In

³⁹<https://rbi.org.in/scripts/BS_FemaNotifications.aspx?Id=11161>

case of share warrants, at least 25% of the consideration shall be received upfront and the balance amount within 18 months of issuance of share warrants;

- o Transfer of Capital Instruments by Non-resident Indians: Transfer of capital instruments by a non-resident Indian to a non-resident no longer requires an approval of the RBI;
- o Reduction of Sectoral Cap for Private Security Agencies: The sectoral cap for foreign investment in private security agencies has been reduced from 74% to 49% under the government approval route;
- o Renunciation of Rights Issue Entitlement: Persons resident outside India are now permitted to acquire capital instruments (other than share warrants) renounced by residents pursuant to a rights issue. As per New FEMA 20, a rights issue is permitted at a price: (a) determined by the company, in case of listed Indian companies; and (b) at which capital instruments are offered to residents, in case of unlisted Indian companies;
- o Timeline for Allotment of Instruments: The timeline for allotment of instruments has been reduced to 60 days from the date of receipt of consideration, as compared to 180 days that was provided under the Old FEMA 20. Essentially, this timeline has been brought in line with the timeframe under the Companies Act, 2013;
- o FC-TRS to be filed by Non-residents for On-market Transactions: Transfer of capital instruments on a recognized stock exchange by a person resident outside India is required to be reported by such person in Form FC-TRS to the authorised dealer bank. Under the Old FEMA 20, this responsibility was of the investee Indian company;
- o Issuance of employee stock option plan (ESOP) and Sweat Equity: An Indian company can issue employees' stock option and/ or sweat equity shares to its employees/ directors or employees/ directors of its holding company or joint venture or wholly owned overseas subsidiary/ subsidiaries who are resident outside India, subject to certain specified conditions, such as, the employee's stock option/ sweat equity shares so issued under the applicable rules/ regulations are in compliance with the sectoral cap applicable to the said company; and
- o Investment in Start-ups: Persons resident outside India (other than citizens of Pakistan or Bangladesh or an entities registered/ incorporated in such countries), are allowed to purchase convertible notes issued by an Indian startup company for an amount of INR 2,500,000 or more in a single tranche.

2. Other recent developments

(i) Government initiatives

In the year 2017, various Indian government / state government officials visited Japan for further development of the economic relations between the two countries. The outcomes of some of those visits are as follows:

- Mr. Ramesh Abhishek, Secretary, DIPP and Ms. Vandana Kumar, Joint Secretary, DIPP visited Japan in April 2017 as part of a delegation led by Commerce & Industry Minister⁴⁰.
- The Indian delegation held several meetings with Japanese business leaders and government officials.
- During one of the conferences, detailed presentation was delivered on 'Make in India' program and the unparalleled opportunities presented by India.
- The Defence Minister of India, Mr. Arun Jaitley visited Japan in September 2017 to attend the India-Japan Annual Defence Ministerial Dialogue.
- The Indian and the Japanese Defence Ministers exchanged views and ideas with the aim to further strengthen defence and security cooperation under the framework of the "Japan-India Special Strategic and Global Partnership". Further, the two Defence Ministers expressed satisfaction at the continued deepening and diversification of bilateral defence cooperation since the signing of the bilateral Memorandum on Defence Co-operation and Exchanges in September 2014 and the two Defence Framework agreements signed in December 2015.
- The two Defence Ministers underlined their intention to explore opportunities for enhancing exchanges and decided to promote cooperation in areas such as institutionalised dialogue and visits, exchanges between Japan Ground Self Defence Force and Indian Army, exchanges between Japan Maritime Self Defence Force and the Indian Navy, exchanges between Japan Air Self Defence Force and Indian Air Force, education and research exchanges and cooperation in defence equipment and technology⁴¹.
- Indian Minister of Petroleum & Natural Gas and Skill Development & Entrepreneurship, Mr. Dharmendra Pradhan visited Japan in October 2017.
- The visit was important to enhance the bilateral engagements in the Oil and Gas sectors within the overall framework of India-Japan Energy Dialogue. The visit also aimed to enhance cooperation in establishing a transparent, efficient, truly global and balanced liquefied natural gas (LNG) market.
- The Indian Petroleum Minister met his Japanese Counterpart Minister of Economy, Trade, and Industry, Japan, Mr. Hiroshige Seko to discuss issues of bilateral engagement in the hydrocarbon sector.
- A Memorandum of Cooperation (MoC) was signed on "Establishing a Liquid, Flexible and Global LNG Market" between India and Japan. The MoC provided a framework for bilateral cooperate in facilitating flexibility in LNG contracts, abolition of Destination Restriction Clause and also explore possibilities of cooperation in establishing reliable LNG spot price indices reflecting true LNG demand and supply.

⁴⁰<<http://dipp.nic.in/international-co-operation/high-level-delegations/japan-visit-high-level-delegation>>

⁴¹<<http://pib.nic.in/newsite/PrintRelease.aspx?relid=170560>>

- The Indian Petroleum Minister also met representatives of Japanese Companies, including Osaka Gas, Mitsui OSK Lines (MOL), Japex, and JERA for exploring areas of further engagement with the Indian companies⁴².

(ii) Number of Japanese companies in India⁴³

- The development of India-Japan business relations can also be seen from the increase in the number of Japanese establishments in India over last few years.
- As of October 2017, a total of 1,369 Japanese companies are registered in India, and a total of 4,838 Japanese business establishments are present in India.
- From October 2016 to October 2017, the number of Japanese companies has increased by 64 (5% growth). In October 2016, there were a total of 1,305 Japanese companies registered in India. Similarly, from October 2015 to October 2017, the number of Japanese establishments has increased by 248 (6% growth). In October 2015, there were a total of 4,590 Japanese establishments in India.
- The states of Haryana and Maharashtra witnessed maximum increase in the number of Japanese companies and establishments in recent years.
- Half of the Japanese companies and one-third of the Japanese business establishments in India are engaged in the manufacturing sector. There is a new trend of Japanese companies entering into the service sector in India. On the other hand, some companies downsized their business or turned non-Japanese due to restructuring and change of ownership.

(iii) Mizuho Financial Group Report - Visualizing India in 2030 and identifying potential industrial sectors and business opportunities for Japanese companies⁴⁴

The Japanese government had tasked the Mizuho Financial Group to find investment opportunities in India. It came out with a report in the year 2017, titled Visualizing India in 2030 and identifying potential industrial sectors and business opportunities for Japanese companies.

Sectors such as electronics, automobiles, energy, transportation and social infrastructure were identified for a focused investing approach. Further, “earliest localization” for Japanese firms was recommended in the report to exploit the future growing market.

(iv) Investments in India

The Japan Bank for International Cooperation (JBIC) is open to supporting the setting up of LNG terminals in India. JBIC has already started approaching various government departments in India, extending its support for setting up of LNG terminal infrastructure. Japan ranks as the world's largest importer of LNG and India ranks fourth⁴⁵.

(v) Japan-India roadmap for Investment Promotion between Ministry of Economy, Trade and Industry of Japan (METI) and DIPP⁴⁶

METI and DIPP issued a joint press statement in September 2017 in India. In order to accelerate Japanese investment in India, the DIPP and METI jointly identified the following focus areas:

⁴²<<http://pib.nic.in/newsite/PrintRelease.aspx?relid=171735>>

⁴³<http://www.in.emb-japan.go.jp/PDF/2017_co_list_en_pr.pdf>

⁴⁴<<http://www.livemint.com/Industry/gOHQ7inHRkboU7RA9CyEUJ/Mizuho-zeroes-in-on-target-sectors-for-Japanese-investments.html>>

⁴⁵<<http://www.thehindubusinessline.com/money-and-banking/jbic-open-to-support-setting-up-lng-terminals-in-india/article9994110.ece>>

⁴⁶<<http://www.meti.go.jp/press/2017/09/20170915006/20170915006-1.pdf>>

(a) Investment Promotion and Facilitation

- The Indian Embassy in Japan will continue to organize promotional activities for the purpose of realizing Japanese investment potential in India. Japan External Trade Organization (JETRO) will provide necessary support in organizing such activities.
- JETRO Business Launch in India Support Service package to facilitate Japanese small and medium enterprises (SME) investment. To support Japanese SME investments, JETRO will establish its fourth business support centre in India.
- As part of business match-making, all concerned companies may be requested to furnish declaration of past record on legal compliance and tax payments to each other.
- Japanese investments may be invited to four industrial cities of Delhi Mumbai Industrial Corridor (DMIC), Dholera Special Investment Region (Gujarat), Shendra Bidkin Industrial Park (Maharashtra), Integrated Industrial Township (Greater Noida – Uttar Pradesh) and Vikram Udyogpuri (Ujjain, Madhya Pradesh), where trunk infrastructure work is at an advanced stage and the process of land allotment has been initiated. Japanese and Industrial governmental organizations would encourage Japanese industries to invest in DMIC nodes.
- Indian state governments will be requested to further strengthen review mechanisms for issue resolution and approvals to speed up problem solving process for facilitating increased investment in India. Indian state governments will be requested to further strengthen the single window clearance systems for fast tracking various permission and approval processes for facilitating increased investments in India. METI and JETRO will pursue collaboration with Indian state governments to deepen the partnership by having and implementing Partnership Memorandums of Cooperation.

(b) Japan Industrial Townships (JITs)

- DIPP and METI will continue to work together on JITs to create enabling environment for Japanese investments in collaboration with relevant Indian ministries and departments along with JETRO.
- Indian state governments are working towards providing necessary basic infrastructure and feasible social infrastructure in and around JITs and establishment of single window clearance procedure for permissions and approvals.

(c) Infrastructure development

METI and DIPP will continue to cooperate for realizing investment potential from Japan for the infrastructure development in India.

(d) Human Resource Development Cooperation

- The first Japanese endowed course is being planned in the state of Andhra Pradesh in the area of power generation and transmission.
- Japanese language education will be strengthened to increase the Indian workers and professionals with Japanese language skills.

(vi) Report on Overseas Business Operations by Japanese Manufacturing Companies - FY2017 Survey (the 29th), issued by JBIC⁴⁷

In relation to the overseas business operations by Japanese manufacturing companies, the latest survey by JBIC indicates that India and China have gained high ratings as promising countries over medium term. India, which was previously in first place, fell to second place but kept a high percentage share of over 40%.

(vii) Key highlights on incentives given by various state governments in India to attract investments

Different state governments offer different incentives to industries in order to attract investments in the state. Some of the key incentives (for some of the states) have been mentioned below:

State of Gujarat

- The government of the state of Gujarat has introduced the Scheme of Assistance under the Scheme for Labour Intensive. This scheme will be in operation till December 31, 2019. The incentives are applicable to new enterprises and for one expansion during the operative period of the scheme. Enterprises of the following industries / sectors which provides the employment to minimum number of persons as mentioned against its name of sector will be eligible: (a) Garment, Apparels and made ups Industry – 300 persons; (b) Agro & Food Processing – 100 persons; (c) Assembling Enterprises with partial manufacturing facilities – 100 persons; (d) Any other labour intensive industries/ sector, with minimum persons required to be employed by it, as decided by the State Level Empowered Committee time to time. Payroll incentive will be eligible only for new/additional Domiciled employees. Assistance will be eligible to new enterprise as well as to existing enterprise for one time expansion. Payroll assistance will be provided at the rate of INR 1200 per person and additional INR 300 per women employment. In case of expansion this payroll assistance will be provided only for additional domicile employees. Interest Subsidy will be 7% maximum up to INR 10 Million per annum for period of 5 years⁴⁸.
- There is also a scheme on Assistance to Industrial Infrastructure, which will be in operation till December 31, 2019. Industries Association, Chamber of Commerce and Industries or SPV of Industries or any large project/ group of industries are eligible under this scheme. Under this scheme, assistance will be considered up to 60% of project cost or INR 250 Million per project whichever less. Assistance up to 80% of the project cost can also be sanctioned by the relevant authority by considering the special circumstances within overall ceiling of INR 250 Million. If the assistance availed is less than 80% of project cost under any scheme of Government of India, the balance assistance up to 80% of total project cost will be provided under this Scheme⁴⁹.

State of Maharashtra

- The government of the state of Maharashtra has been giving package of incentives to New Industrial Units / Expansion Units set up in the developing regions of the state since 1964 under a Scheme popularly known as the "Package Scheme of Incentives." The Package Scheme of Incentives, introduced in 1964, has been amended from time to time. The Scheme as amended last, is commonly known as the "Package Scheme of Incentives-2007" (PSI-2007) and is operative since the April 1, 2007.

⁴⁷ <<https://www.jbic.go.jp/en/information/press/press-2017/1122-58812.html>>

⁴⁸ <<http://www.ic.gujarat.gov.in/schemes-for-assistance-labour-intensive-industries.aspx>>

⁴⁹ <<http://www.ic.gujarat.gov.in/assistance-for-industrial-infrastructure.aspx>>

- In supersession of the Package Scheme of Incentive – 2007, which expired on March 31, 2013, the Government of Maharashtra accorded approval to the new “Package Scheme of Incentives -2013” (PSI-2013) which came into effect on the April 1, 2013 for a period of five years (i.e. till March 31, 2018).
- PSI-2013 was brought to ensure sustained industrial growth through various innovative initiatives so as to further improve the conducive industrial climate in the State of Maharashtra and to provide global competitive edge to the industries in the state. The policy envisages grant of fiscal and non-fiscal incentives to the industrial units.
- Under PSI-2013, the financial incentives provided to Micro, Small and Medium Enterprises (MSMEs) / Large Scale Industry (LSI) include the following:
 - Existing/New MSMEs, LSI (including Manufacturing IT/BT) Units, qualifying as Expansion/ Diversification Units, are eligible to get the incentives for Expansion /Diversification, equivalent to 75% of the incentives admissible for New Units.
 - The eligible New/Expansion MSMEs which are set up in different parts of the State, are eligible for industrial promotion subsidy.
 - Specified MSMEs are eligible for interest subsidy. The interest subsidy is payable only on the interest actually paid to the banks and public financial institutions on the amount of term loans taken for acquisition of fixed assets.
 - Specified units are exempted from payment of electricity duty during eligibility period not exceeding 15 years.
 - New Units as well as units undertaking expansion/ diversification (including Mega and Ultra Mega Projects) are exempted from payment of stamp duty during the Investment period in specified areas.
 - Specified MSMEs are eligible for power tariff subsidy.
- Incentives have also been provided for mega projects / ultra-mega projects. The quantum of incentives for mega projects and ultra-mega projects is decided by the High Power Committee under the chairmanship of the Chief Secretary, Government of Maharashtra on a case to case basis. The Cabinet Sub Committee for Industry, under the chairmanship of the Chief Minister of Maharashtra has the powers to sanction customized package of incentives and even offer special / extra incentives for prestigious mega projects / ultra-mega projects, on a case to case basis⁵⁰.

State of Andhra Pradesh

- The government of the state of Andhra Pradesh has also offered certain incentives for the information technology (IT) industry. The fiscal incentives include the following:
 - 10% subsidy on new capital equipment for technology upgradation limited to INR 2.5 Million as one time availment by the eligible company.

⁵⁰<<https://maitri.mahaonline.gov.in/PDF/PackageSchemeofIncentives2013.pdf>>

- o IT industry is eligible for 100% reimbursement of the stamp duty, transfer duty and registration Fee paid on sale / lease deeds on the first transaction and 50% thereof on the second transaction.
- o IT Units classified as MSME are eligible for 25% subsidy on power bills for a period of 3 years from the date of commencement of commercial operations or INR 3 Million, whichever is earlier.
- o IT Units established by schedule case / schedule tribe and women entrepreneurs are eligible for 50% subsidy on power bills for a period of 5 years from the date of commencement of commercial operations or INR 5 Million, whichever is earlier.
- o New IT / ITES units, after coming into commercial operations are entitled for 100% exemption on electricity duty for a period of 5 years.
- The non-fiscal incentives, amongst others, relate to land allotment. The allotment of government land or land held by Andhra Pradesh Industrial Infrastructure Corporation (APIIC) for industrial development, to the IT units shall be governed by the following principles:
 - o The land allocation for IT Industry will be as per GO Ms. No: 571, Revenue (Assgn. I) Department, dated: September 14, 2012;
 - o The land allotment would be based on the business proposal and the investment capacity of the company / investor⁵¹.

State of Haryana

- The state government of Haryana introduced the “Enterprises Promotion Policy-2015” in August 2015. Key highlights of the policy are:
 - o Interest Subsidy 5% - 6% on term loan for 3 - 5 years;
 - o Zero Defect and Zero Effect - Financial assistance and support for quality certification, technology acquisition and upgradation and establishment of effluent treatment plant;
 - o Land Related Incentive Reduced external development charges (EDC) charges 50% and 50% - 100% refund of stamp duty;
 - o Land Related Incentive - Reduced EDC charges 50%; 50% - 100% refund of stamp duty; and
 - o Increase floor area ratio (FAR) Higher FAR of 150% has been provided with approval of HEPB.
- The government of the state of Haryana has also introduced the following schemes:
 - o The ‘NIRBAADH’ (New Industrial Regulation by Automatic Approvals and Delegation in Haryana) Scheme – It focuses on time bound approvals and clearances and self-certification and third party verification;
 - o ‘FINE’ (Financial Incentives and No Enhancements) – It reduces the cost of doing business through a slew of incentives and no enhancement in cost of plots allotted by HSIIDC in future;

⁵¹<<http://apit.ap.gov.in/incentives/ap-it-policy-2014-2020/?wb48617274=2F1941CA>>

- o 'PRANETA' (Professionals and New Entrepreneur Tax Assistance) Scheme - Under the Scheme, professional and technically qualified entrepreneurs would not be required to pay any State tax up to INR 30 Million for 3 years; and
- o Maha Nivesh Yojana – It has been launched for Iconic-Ultra Mega Projects in manufacturing, Tourism, Logistics, Wholesale Markets etc. involving land of minimum 500 acres and investment of US\$ 1 billion (INR 6,000 crore). Such projects would be provided a special dispensation including customized package of incentives⁵².

⁵²<<http://www.investharyana.nic.in/Static/AttractiveIncentives>>

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