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India – Japan Relations in Services

& the

India – Japan Comprehensive Economic Partnership Agreement

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Abstract

India and Japan signed a Comprehensive Economic Partnership Agreement (CEPA) in February 2011. Lauded as one of India's most exhaustive trade agreements, it aims to liberalize and enhance trade in goods, services as well as investment flows between the two countries. However, trends in bilateral trade suggest that the bilateral potential remains untapped. This study examines the prospects for expanding trade, investment, and other forms of engagement between India and Japan in the service sector and the factors that currently constrain this potential. It specifically focuses on four service subsectors, namely, education services, IT and IT enabled services (ITeS), technology-based start-ups providing services and engineering services. The study also assesses the extent to which there is awareness of the CEPA among stakeholders on both sides and the likely efficacy of this agreement in enabling the realization of expected benefits.

Keywords

Services, CEPA, trade, FDI, commitments, bilateral

JEL classification:

F13, F16

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Summary

India and Japan signed a Comprehensive Economic Partnership Agreement (CEPA) in February 2011. The agreement came into force in August 2011. Lauded as one of India's most exhaustive trade agreements, it aims to liberalize and enhance trade in goods, services as well as investment flows between the two countries. However, trends in bilateral trade suggest that the bilateral potential remains untapped. This study examines the prospects for expanding trade, investment and other forms of engagement between India and Japan in the service sector and the factors that currently constrain this potential. It specifically focuses on four service subsectors, namely, education services, IT and IT enabled services (ITeS), technology-based startups providing services and engineering services. The study also assesses the extent to which there is awareness of the CEPA among stakeholders on both sides and the likely efficacy of this agreement in enabling the realization of expected benefits.

Following the introduction, Section 2 provides an overview of services trade for India and Japan and discusses their bilateral trade and investment relations in services in recent years, based on secondary sources. Section 3 outlines the key features of the four services in both countries and the status of existing bilateral initiatives in these services. The discussion clearly indicates the strengths and complementarities between the two countries in the service sector and highlights the scope for expanding and diversifying trade and investment relations as well as non-commercial engagement between the two countries.

Section 4 presents the findings of the interviews for each of the 4 sectors. The discussion outlines the opportunities for bilateral engagement in these services, the key challenges, and the perspectives of respondents on the CEPA and future directions for this agreement to advance mutual interests in the selected services. The survey findings indicate that the main factors that make Japan an attractive partner market are its technological expertise, the opportunity it provides as a new untapped market for firms looking for diversification (in Asia-Pacific) and recent incentives by the Japanese government to internationalize by attracting businesses to Japan as well as by investing overseas. Opportunities in the Indian market are mainly due to the quality and cost effectiveness of its workforce and to a lesser extent government policies and incentives. The main constraints highlighted by the survey relate to differences in language and culture and organizational practices, followed by high investment costs in Japan and infrastructural challenges as well as regulatory issues concerning investment and labour in India. Overall, the discussions indicate that for the CEPA to be more useful to both countries, the linguistic and cultural gap and the lack of understanding and awareness of each other's markets need to be bridged.

Section 5 concludes by highlighting some specific steps that could be taken in future negotiations to make the agreement much more meaningful to both sides. These include addressing the unfinished built-in agenda under the agreement; exploring synergies and collaborative opportunities as well as targeting new segments and niches; and reviewing the functioning and efficacy of those aspects which have been addressed under the CEPA. Specific action points are also outlined to address issues such as data limitations in bilateral services trade, cultural and linguistic barriers, data security, as well as longer-term strategic interests through partnerships in other regions such as Africa and collaboration in sectors such as health. A key takeaway from this study is that without enhanced connectivity and understanding at the level of people and organizations, the macro level benefits of the CEPA in terms of trade, investment, and technology flows, will be difficult to realize.

1. Introduction to the Study

1.1 Background and Motivation

In the past two decades, most economies in the world have entered into various kinds of regional and bilateral agreements. These include free trade agreements (FTAs), preferential trade agreements (PTAs), economic cooperation and economic partnership agreements (ECAs and EPAs), among others. These are between countries with similar as well as vastly different levels of development, and both within and across regions. Increasingly, an important feature of these agreements is that they go beyond goods to cover the services sector as well as other issues such as investment, government procurement, labour and environment, among others.

The inclusion of services in trade agreements stems from their growing tradability. Services trade expanded at an average annual growth rate of 5.4 percent between 2005 and 2017, compared to 4.6 percent for goods trade. Services exports were valued at US\$ 5.8 trillion in 2018, or 25 per cent of global exports, with developing countries accounting for a growing share (Trade and Development Report, UNCTAD, 2019)². The rise in services trade is due to a variety of factors, including advances in information and communication technology, increased mobility between countries, declining transport costs, liberalization of Foreign Direct Investment (FDI) in services and the growing use of services as an input to manufacturing all through the value chain.³ An important distinguishing feature of services trade is that it is subject to a wide range of border measures such as FDI, visa, and data localisation and transfer regulations related restrictions as well as behind-the-border measures in the form of standards, licensing restrictions, economic needs tests, authorization requirements, and other domestic regulations. Moreover, services can be traded through various modes of supply.⁴ These as well as other characteristics of services, such as their intangibility, non-durability, and the provider-consumer proximity burden in many services, make it far more complex to address services liberalization compared to goods in trade agreements.

² https://unctad.org/en/PublicationsLibrary/tdr2019_en.pdf

³ According to the World Trade Report, 2019, 59 per cent of world trade in services can be attributed to Mode 3, i.e., commercial presence, which signifies the importance of FDI for services trade. In 2018, the value of net cross-border M&As globally was the highest in the services sector, valued at USD 469 bn. Similarly, the value of FDI greenfield projects announced was the highest in services, at USD 463 billion (World Investment Report, UNCTAD, 2019).

⁴ Services can be traded through 4 modes of supply. These are: mode 1 (cross-border supply) when a service crosses borders (BPO, transport); mode 2 (consumption abroad) when a consumer consumes the service in another country (medical tourism, foreign students); mode 3 (commercial presence) when a juridical entity is set up to provide a service in another country (banking, telecom); and mode 4 (movement of natural persons) when a service supplier goes to another country temporarily to deliver a service (IT, healthcare).

1.2 India and FTAs

India has, over the past two decades, significantly expanded its trade and investment relations with a growing number of countries by initiating free trade, preferential trade, and economic cooperation agreements. Within Asia, India has signed bilateral FTAs with Sri Lanka (1998, in force 2001), Afghanistan (2003), Thailand (2004), Singapore (2005), Bhutan (2006), Nepal (2009), Korea (2009, in force 2010), Malaysia (2011) and Japan (2011). It has also signed the South Asian Free Trade Agreement (SAFTA) (2004, in force 2006) and a bilateral FTA with the Association of Southeast Asian Nations (ASEAN) in 2010. Outside Asia, India has entered into free trade agreements with Chile (2006, in force 2007) and MERCOSUR (2004, in force 2009).⁵ Negotiations are in process, at various stages with many partners, including the EU⁶, Australia, New Zealand, Indonesia, among others. An important trend in India's approach to FTAs is to negotiate comprehensive agreements that include goods, services and investment. This is mainly motivated by the fact that India is more competitive in services and expects to be able to better leverage any market access gains in services under such agreements, thereby also compensating for losses it experiences in goods trade. India's interests in services pertain to the movement of its professionals to partner countries in sectors and through cross border delivery of outsourced services.

After more than a decade of India's entry into such comprehensive agreements, the evidence appears to be mixed. The market access gains in services have largely not been realized. India's recent withdrawal from the Regional Comprehensive Economic Partnership (RCEP) agreement in part reflects this view among Indian policy makers, that market access commitments in services from partner countries may not be forthcoming as expected under such comprehensive arrangements, while India may have to increasingly concede market access in goods, resulting in growing trade deficits with its partners. There is thus an emerging view that India needs to review its FTAs, take stock of the gains and losses, and accordingly decide on the future course of FTA negotiations as well as its existing agreements.

Needless to say, a cost-benefit analysis of FTAs, however, should not be limited to a simplistic assessment of their impact on trade balances as there are potential gains in the form of technology transfer, value added linkages, trade-related investment flows, and improved access to a greater variety of intermediate goods and services, which cannot be captured through trade balances. Furthermore, India's experience shows that utilization of FTAs might be quite low and attributing the effects on trade flows to an agreement, may not always be justified. It is thus important to review each bilateral or regional agreement against its potential, i.e., in terms of the sectoral opportunities and challenges that exist between the partners in individual sectors and to widen this analysis beyond trade flows to consider all forms of engagement, both commercial and non-commercial. It is also important to assess the degree of awareness and utilization of an agreement among industry stakeholders. Such a deep-dive analysis can provide a more holistic understanding of the prospects for expanding bilateral or regional relations in services and the specific constraints that would need to be addressed in each sector with respect to each partner country.

⁵ This information is based on India's notification of its various free trade agreements to the WTO.

⁶ Discussions for an India-EU Broad-Based Trade and Investment Agreement are currently on hold and have to be relaunched.

1.3 India Japan CEPA

One such FTA signed by India is the India-Japan Comprehensive Economic Partnership Agreement (CEPA). This agreement was signed in February 2011 and came into force in August 2011. Lauded as one of India's most exhaustive trade agreement, it aims to liberalize and enhance trade in goods, services as well as investment flows between the two countries. This agreement drew upon the recommendations of a 2006 Joint Study Group (JSG) Report which highlighted the existence of immense untapped economic opportunities between the two countries, that could be realized through a CEPA.⁷

One of the main observations of the JSG report was the presence of complementarities between India and Japan., in particular, the demographic complementarity between the two countries, given India's young, quality and cost-effective labor force and Japan's ageing population and rising wages.⁸ The report noted that Japan needs to outsource services in multiple sectors while India has a skill-intensive labour force that could provide cost-effective and high-quality services. India's expertise in areas such as IT and biotechnology were seen as complementing Japan's edge in R&D, technology and manufacturing of products while India's growing middle-class with rising incomes had the potential to serve as a huge market for Japanese investments. Overall, the JSG, which laid the basis for the eventual CEPA between the two countries, noted that expanding bilateral relations in services would be more important than in the goods sector as this would enhance the connect between people. It suggested a "GATS-plus" engagement through the CEPA, which could aid the growth of the services sector in both countries and recommended facilitating the movement of skilled professionals from India to Japan to provide the requisite services.⁹ The JSG report also highlighted the presence of barriers such as the lack of recognition of qualifications and experience of professionals and visa restrictions as a challenge to expanding bilateral relations in services.

⁷ Apart from the CEPA which is under review, there are other forums through which India and Japan are engaged in services discussions. These include the Indo-Pacific alliance, the G20, the trilateral forum consisting of India-Japan-Australia and various bilateral MoUs and jointly funded initiatives.

⁸ Japan's population reached its peak in 2007 and has been on a declining trend since, with 28 per cent of the population above 65. It is estimated to decline by 13 per cent by 2045 (See <https://www.nytimes.com/2019/12/24/world/asia/japan-birthrate-shrink.html>). With a low female labour force participation rate and a large aged population, Japan's dependency ratio is very high. In contrast, India entered the period of demographic dividend in 2018 with the working age population accounting for 66.4 per cent of its population (See <https://data.oecd.org/pop/working-age-population.htm>).

⁹ GATS refers to the General Agreement on Trade in Services under the WTO. A GATS plus approach refers to inclusion of elements and commitments that go beyond what exists under the GATS.

Evidence following implementation of the India-Japan CEPA indicates hardly any expansion in bilateral relations in goods or services. India's exports of goods to Japan have declined from US\$ 4.8bn in 2010-11 to US 4.5 \$ bn in 2018¹⁰ while its services exports to Japan increased only marginally from US \$4 bn to \$4.8 bn between 2010 and 2015 (the latter being the latest year for which bilateral services data is publicly available)¹¹. In sectors such as IT and information services and other business services, where India is considered to be competitive, its exports to Japan have hardly increased, rising from US \$2.1 bn to \$3 bn for IT services and from \$423mn to \$585 mn for other business services between 2010 and 2015¹². There is no dynamism evident in either exports or imports of services between the two countries. If one considers the relative importance of the two countries in each other's trade flows, then one finds a stagnant or declining trend. In 2006, Japan ranked 10th among India's export markets and import sources. In 2019 it ranked 19th and 14th, respectively¹³. As an export market for services, Japan's share has declined from 2.9% to 2.5% and its importance as a source of imports for services has fallen from 4% to 3.5% over 2006 to 2015. Similarly, India's significance for Japan as a source of services imports has risen only marginally from 1.9% to 2.1% and from 1.6% to 1.8% as a market for services exports from Japan, during this period.

The trends in bilateral trade thus indicate that the bilateral potential that had been highlighted in the JSG remains untapped. This point is well captured in a recent statement by the current Commerce Minister in December 2019, that "despite commitments in CEPA from Japan, market access for India's goods and services remain elusive."¹⁴ Against this backdrop, it is important to examine in-depth the prospects and the challenges that exist for India-Japan relations.

¹⁰<https://wits.worldbank.org/CountryProfile/en/Country/IND/StartYear/1988/EndYear/2018/TradeFlow/Export/Indicator/XPRT-TRD-VL/Partner/JPN/Product/Total>

¹¹ Bilateral services trade data is available for a longer time period (2000-2015) from the OECD's Trade-in-Value-Added (TiVA) database. This is the most detailed bilateral services trade database available at this time, the only limitation being that this data is available only till 2015.

¹² See https://stats.oecd.org/Index.aspx?datasetcode=TIVA_2018_C1 (Accessed April 22, 2020)

¹³ India Trade Portal, Ministry of Commerce and Industry, GOI

¹⁴ See, https://economictimes.indiatimes.com/news/economy/foreign-trade/india-japan-trade-ministers-discuss-review-of-cepa-ahead-of-pms-meet/articleshow/72458688.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

1.4 Scope and Outline

This study specifically focuses on the potential that exists for expanding trade, investment and other forms of engagement between India and Japan in the service sector and the factors that currently constrain this potential. As services are very heterogeneous in nature, we focus on four service subsectors, namely, education services, IT and IT enabled services (ITeS), technology-based startups providing services and engineering services.¹⁵ The choice of these four services is motivated by discussions with industry and government officials and an examination of the secondary evidence on bilateral initiatives, bilateral data and a stock taking of the sectors and activities in which companies are present in each other's markets. Though there exist some studies which have analyzed bilateral merchandise trade between India and Japan, there is a paucity of studies exploring trade in key services and the implications of CEPA for the same. This study aims to address this gap by both identifying bilateral opportunities in these services and also constraints impeding these opportunities. Further, it assesses the extent to which there is awareness of the CEPA among industry stakeholders on both sides and the likely efficacy of this agreement in enabling the realization of expected benefits.

The discussion is based on a mix of primary and secondary evidence. It primarily draws upon interviews with Indian and Japanese companies present in each other's markets, as well as government officials, industry experts and industry association representatives. These primary insights are supplemented by data from secondary sources to validate the findings.

The report is structured as follows. Section 2 provides an overview of services trade for India and Japan and discusses their bilateral trade and investment relations in services in recent years, based on secondary sources. It highlights the strengths and complementarities between the two countries in the service sector. Section 3 outlines the key features of the four services under focus in this study in both countries and the status of existing bilateral initiatives in these services. Section 4 presents the findings of the interviews for each of the 4 sectors. The discussion outlines the opportunities for bilateral engagement in these services, the key challenges, and the perspectives of respondents on the CEPA and future directions for this agreement to advance mutual interests in the selected services. Section 5 concludes by recommending possibilities for expanding relations in the selected services, as well as steps to take advantage of the CEPA on both sides and specific issues that could be addressed in a future review of this agreement. Based on the analysis, the study provides some recommendations regarding how India and Japan could better leverage the CEPA to benefit the services under focus and some issues which may need to be generally addressed in a future review of this agreement.

¹⁵ We consider tech start-ups in services, including in IT-IT enabled services but distinguish these from IT and IT-enabled services firms. For engineering services, although the GATS framework mostly covers engineers in infrastructure services, in this discussion, we take a broad definition of engineering services. We consider the provision of engineering services across different verticals (infrastructure, IT products, Construction, and manufacturing) and do not make a distinction between engineers as part of the manufacturing versus the services workforce.

2. Service Trade in India and Japan & Bilateral Engagement

The service sector plays an important role in both the Indian and Japanese economies. Inclusive of construction services, the tertiary sector accounts for the bulk of economic activity in both countries, constituting 61.8 percent of India's GDP in 2017-18 and 72.2 percent of Japan's GDP in 2018.¹⁶ Both traditional services such as distribution and transport as well as modern services such as financial, telecommunication and business services are important contributors to tertiary activity in the two countries. Services also constitute an important part of trade and investment flows for both countries.

2.1 Services Trade in India and Japan

In the discussion that follows, we outline trends in services trade and investment for both countries, with respect to the world followed by an overview of their bilateral trade and investment engagement in services. The discussion highlights the overall structure, strengths, and complementarities between the two countries in the services sector.

2.1.1 India's services trade flows

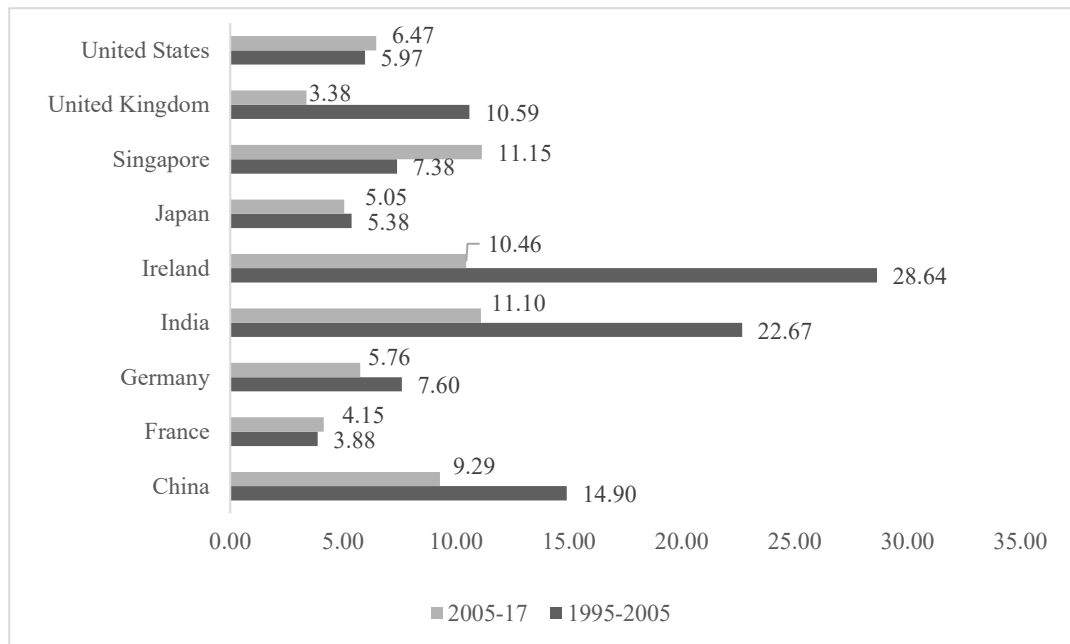
India's services exports have steadily grown more than tenfold from \$52 bn in 2005 to \$205 bn in 2018 while its services imports have risen from \$60.6 bn to \$176.5 bn over this same period. India ranked 8th in global services exports in 2018, contributing to 3.5 percent of global services exports.¹⁷

As shown in Figure 1, India's services exports grew at a Compound Average Growth Rate (CAGR) of 23 percent during the 1995-2005 period second only to Ireland and compared to 15 percent for China. Despite a deceleration over the 2005-17 period, with the CAGR of India's services exports declining to 11 percent (reflecting the slowdown post the 2008 Global Financial Crisis), it remained among the fastest growing countries for services exports.

¹⁶ For further details on the breakdown and value of India's and Japan's GDP, respectively, see, http://www.mospi.gov.in/sites/default/files/reports_and_publication/statistical_publication/National_Accounts/NAS19/s1.6Ar.pdf, https://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2018/pdf/point_flow_en_20191226.pdf (accessed April 22, 2020)

¹⁷ <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/356/index.html> (accessed April 22, 2020)

Figure 1: CAGR for Services Exports for Leading Services Exporters
1995-2005, 2005-17 (%)



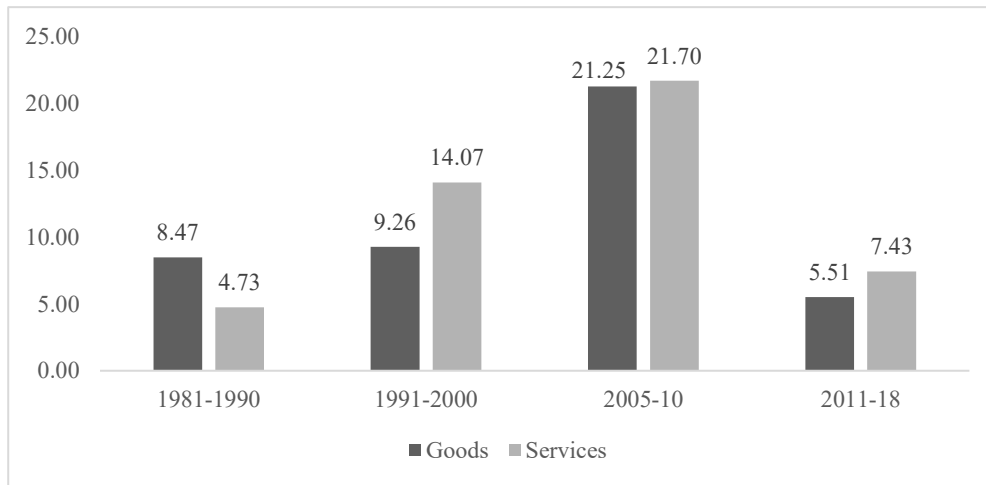
Source: http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en
(accessed October 1, 2018)

Notes:

1995-2005 figures are based on BPM5; 2005-17 figures are based on BPM6.
For Netherlands, 2010-17 data has been used as 2005-09 is unavailable.

Services have consistently exhibited higher growth than goods trade over the past two decades, resulting in the sector’s growing share in India’s export basket, from 18.1 percent in 1995 to 38 percent in 2018 and reflecting its relative competitiveness in services compared to goods. Figure 2 highlights India’s superior performance in services as opposed to goods trade while Figure 3 illustrates its higher Revealed Comparative Advantage (RCA) in services relative to goods exports.

Figure 2: India's average annual growth rate of goods and services exports 1981-2018 (%)

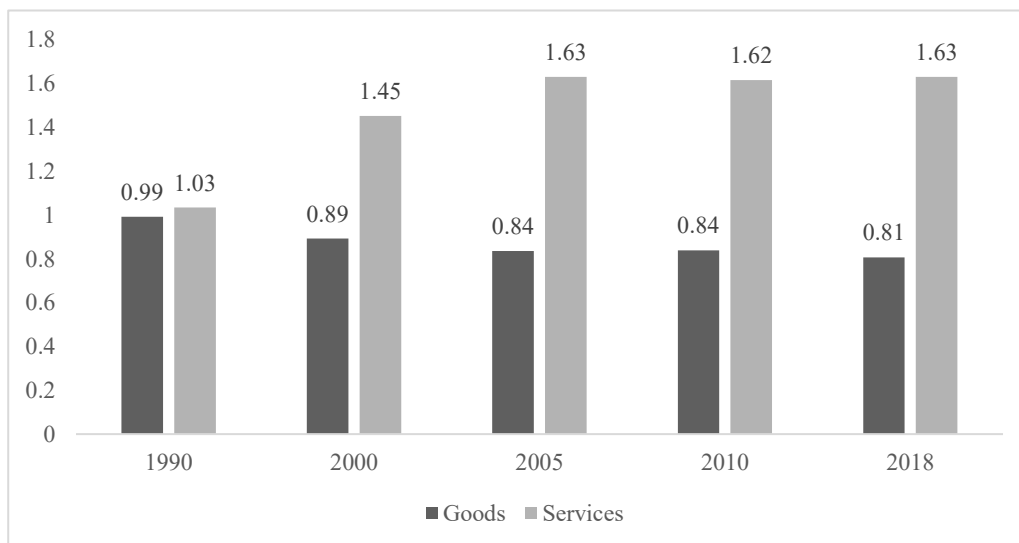


Source: UNCTAD Statistics

<https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/356/index.html>

(accessed April 22, 2020)

Figure 3: India's RCAs in goods versus services Selected Years (1980-2018)



Source: UNCTAD Statistics

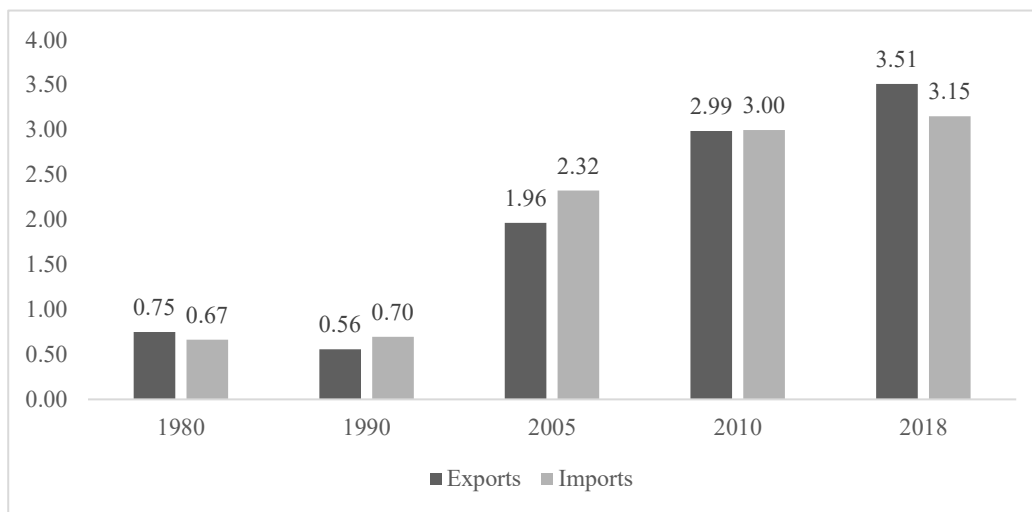
<https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/356/index.html> (accessed April 22, 2020)

Note: Revealed Comparative Advantage Index (RCA) is used to assess a country's export potential. The RCA index of country *i* for product *j* is measured by the product's share in the country's exports in relation to its share in world trade: $RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$. Where x_{ij} and x_{wj} are the values of country *i*'s exports of product *j* and world exports of product *j* and where X_{it} and X_{wt} refer to the country's total exports and world total exports. A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

See, https://wits.worldbank.org/wits/wits/witshelp/Content/Utilities/e1.trade_indicators.html

These growth and competitiveness trends are in turn reflected in India's growing significance in global services exports relative to goods. India's share in world services exports rose from 0.75 percent in 1980 to 1.1 percent in 2000 and has since then more than trebled to 3.51 percent in 2018. In contrast, its share in global merchandise exports has risen from 0.42 percent to 0.67 percent between 1980 and 2005 and stood at 1.74 percent, much below its share in services in 2018. Alongside this increase, due to the liberalization and deregulation of many services and growing services demand, India's share in global services imports has also increased over time. Figure 4 illustrates India's rising share in world services exports and imports over the years.

Figure 4: India's share in world services exports and imports
Selected Years (%)



Source: UNCTAD Statistics

<https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/356/index.html>

(accessed April 22, 2020)

An important feature of services exports is the shift away from traditional services such as transport and tourism and towards “other commercial services”, the latter comprising of a variety of services including construction, financial, computer and information, and other business services (advertising, engineering, R&D, management consulting, etc.) among others. The shift towards “other services” is due to their rapid growth compared to other segments, reflecting their greater competitiveness relative to transport and travel services. As shown in Table 1, the share of these other services in India's services export basket has risen from less than 50 percent in 1990 to over 75 percent in 2018. Similar changes are also present in India's services imports where other commercial services now account for over half of the services import basket.

Table 1: Composition of India's services exports and RCAs by broad segments

Selected Years (1990-2018) (%)

	1990	2000	2005	2010	2018		1990	2000	2005	2010	2018
	Shares						RCAs				
Transport	20.74	11.86	12.53	11.34	9.26		0.8	0.76	0.94	0.87	0.87
Travel	33.70	20.74	14.36	12.38	13.93		1.1	0.96	0.89	0.82	0.92
Other services	45.56	67.40	73.11	76.28	76.59		1.13	2.13	2.45	2.42	2.29

Source: UNCTAD Statistics

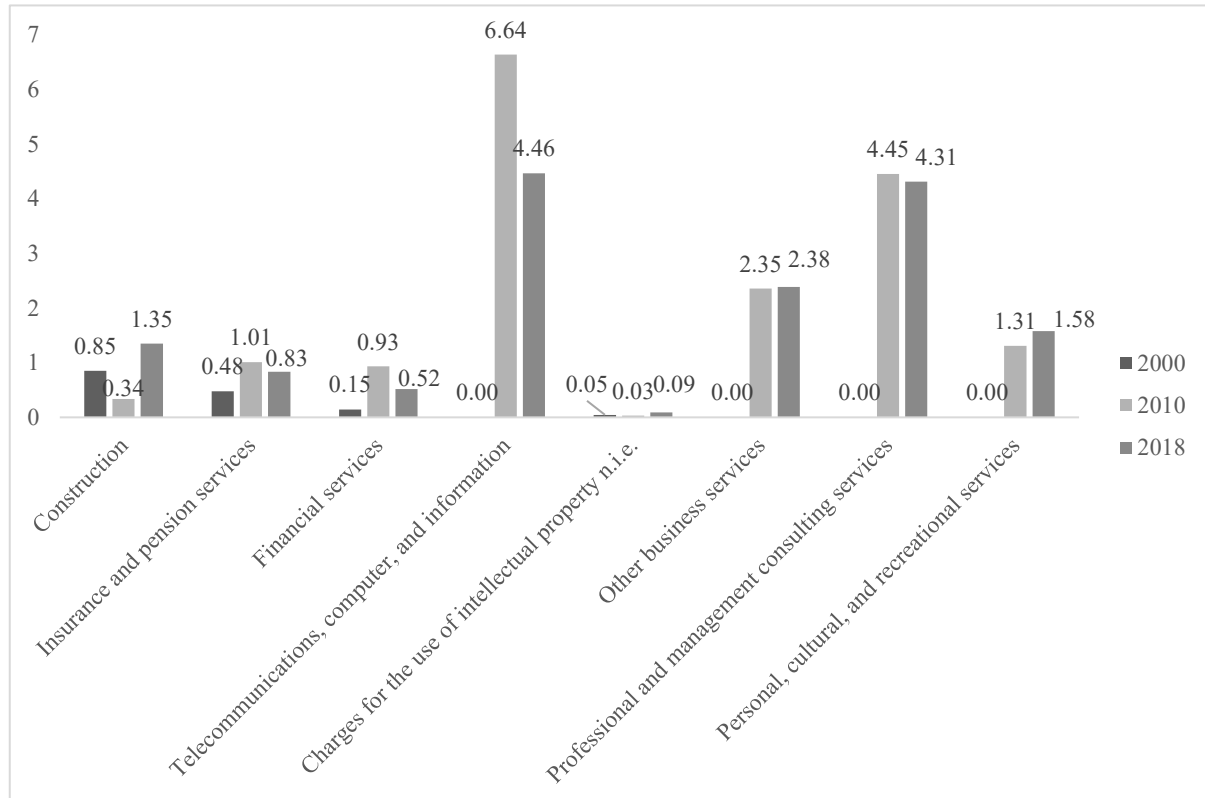
<https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/356/index.html>

(accessed April 22, 2020)

A closer examination of India's services export basket reveals that two subsectors, namely, "telecommunications, computer and information services" and "other business services" together accounted for 60 percent or more of India's total services exports. Figure 5 provides the RCAs for selected subsectors within "other services". It indicates India's competitiveness in IT and IT-enabled services as well as segments such as management consulting within "other business services".

Figure 5: India's RCAs for selected categories of other services exports

Selected Years

Source: <https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx> (accessed April 22, 2020)

Notes: 2000 figures are based on BPM5; 2010 and 2017 figures are based on BPM6

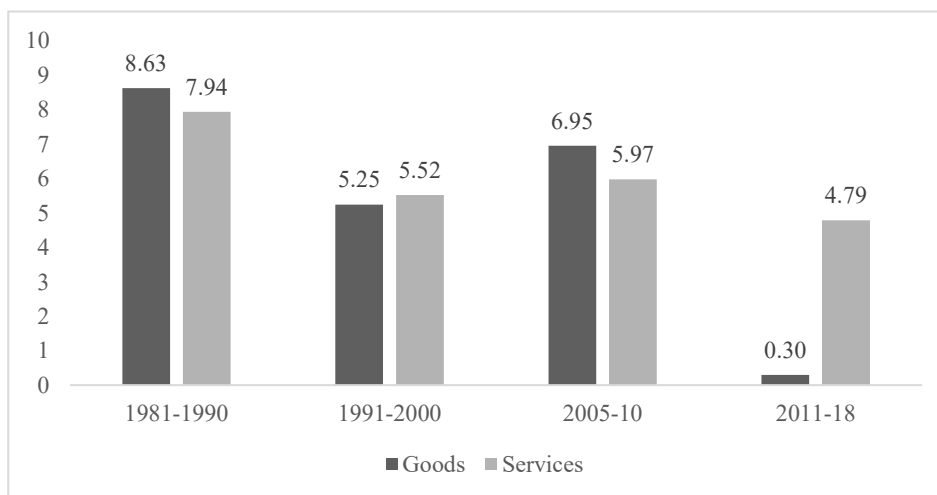
Blanks indicate data are not available for these disaggregated categories

An important aspect to note, however, is India's declining RCA indices in IT-ITeS and its relatively stagnant position in overall other business services. This is because it is losing its cost advantage in computer and information services and is facing regulatory and other challenges to these exports and because its competitiveness does not appear to be broad-based within other business services.

2.1.2 Japan's services trade flows

Japan's services exports have grown from \$102 bn in 2005 to \$192 bn and its services imports have risen from \$139 bn to \$200 bn between 2005 and 2018.¹⁸ The country ranked 8th in services exports and 9th in services imports in 2018. Trends, however, indicate Japan's relative strength in merchandise as opposed to services trade. Unlike the case of India, goods exports have generally performed better than or at par with services exports, except in the last decade, as captured in Figure 6 and also exhibits higher RCAs for goods as opposed to services as shown in Figure 7.

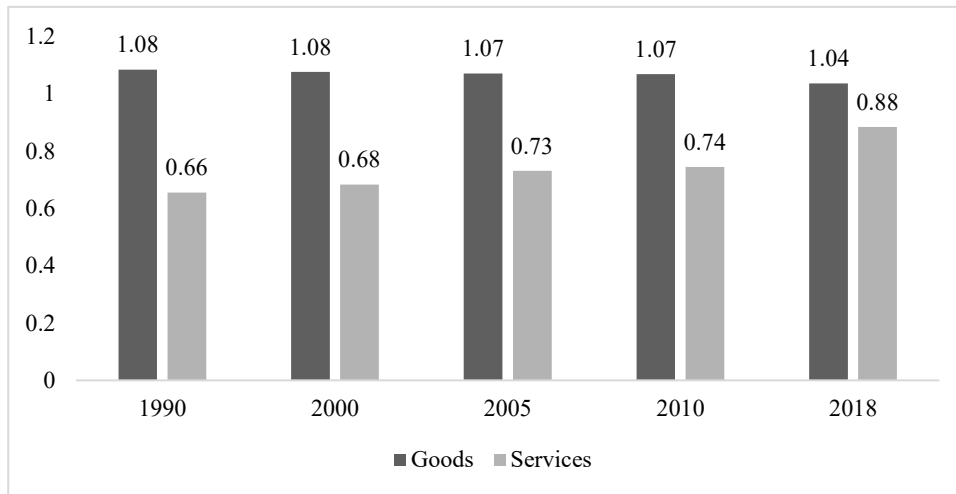
Figure 6: Japan's average annual growth rate of goods and services exports



Source: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html> (accessed April 22, 2020)

¹⁸ See, <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html>

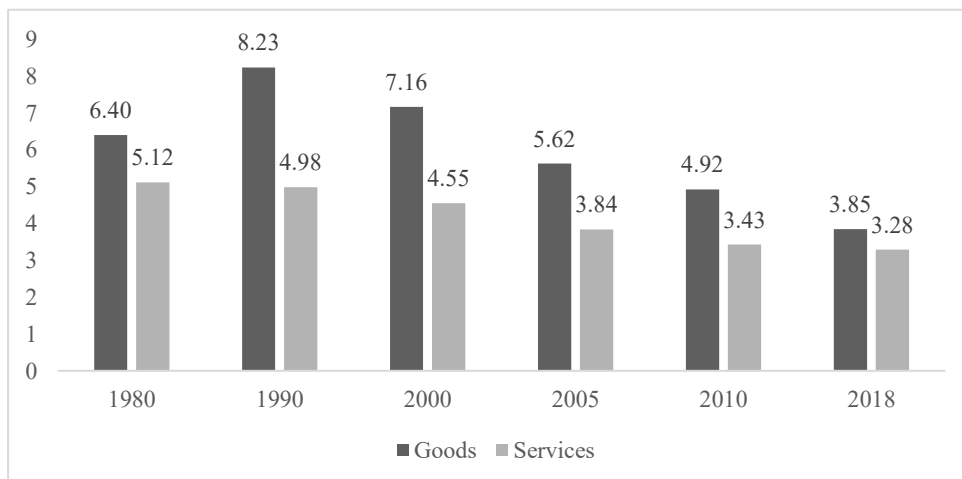
Figure 7: Japan’s RCAs in goods and services exports
Selected Years (1980-2018)



Source: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html>
(accessed April 22, 2020)

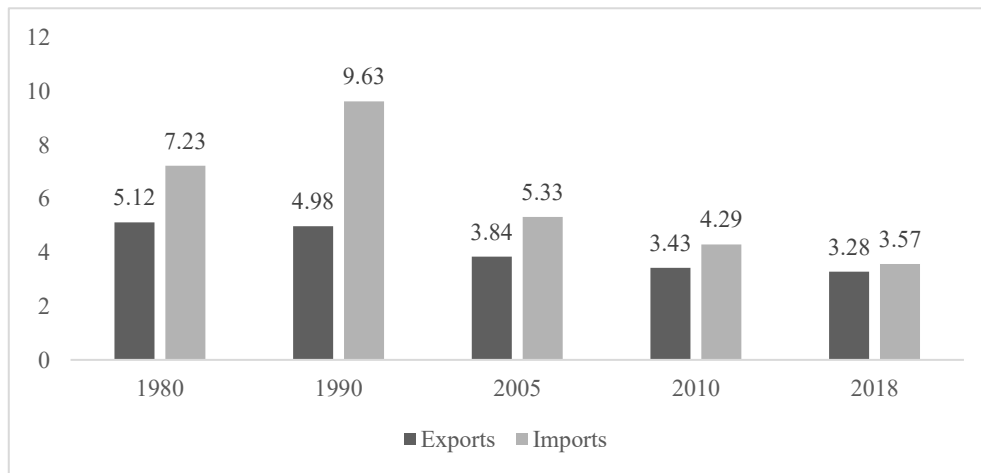
Given its relative competitiveness in goods exports, Japan accounts for a higher share of global goods exports as opposed to services, although there is a general declining trend in case of both sectors over the past three decades. The same decline is also seen in case of Japan’s significance as an importer of services globally and is quite marked in the post 2000 period. Figures 8 and 9 illustrate these trends in Japan’s goods versus services trade flows and in its role in global services trade.

Figure 8: Japan’s share in world exports of goods and services
Selected Years (1980-2018) (%)



Source: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html>
(accessed April 22, 2020)

Figure 9: Japan's share in world services exports and imports
Selected Years (1980-2018) (%)



Source: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html>
(accessed April 22, 2020)

A feature worth noting, which stands in contrast to the case of India, is that Japan has consistently had a higher global presence in services imports as opposed to exports. Overall, the picture that emerges is that of a country which is more competitive in goods compared to services but whose significance in the world market has fallen across sectors, reflecting its economic stagnation in the past two decades.

In terms of the composition of Japan's services exports, one finds a major shift from segments like transport services towards travel and other services as seen in Table 2. The RCAs indicate that Japan is relatively more competitive in the "other services" segment. A closer examination reveals the subsectors which are important within this segment. These include construction, financial, charges for use of intellectual property, other business services, which constituted 5 percent or more of total services exports. Table 3 presents the structure of Japan's other services exports followed by Figure 10 which shows Japan's competitiveness in certain segments such as Intellectual Property (taken here as a proxy for competence in technical and R&D services) and construction services.

Table 2: Composition of Japan's services exports and RCAs by broad segments
Selected Years (1990-2018) (%)

	1990	2000	2005	2010	2018	1990	2000	2005	2010	2018
	Shares					RCAs				
Transport	42.89	36.98	35.08	31.42	15.07	1.05	1.11	0.22	0.35	0.50
Travel	8.67	4.87	12.19	9.82	21.42	0.18	0.11	0.20	0.33	0.54
Other services ^{a/}	48.44	58.15	52.42	58.32	62.58	-	0.87	0.56	0.97	1.33

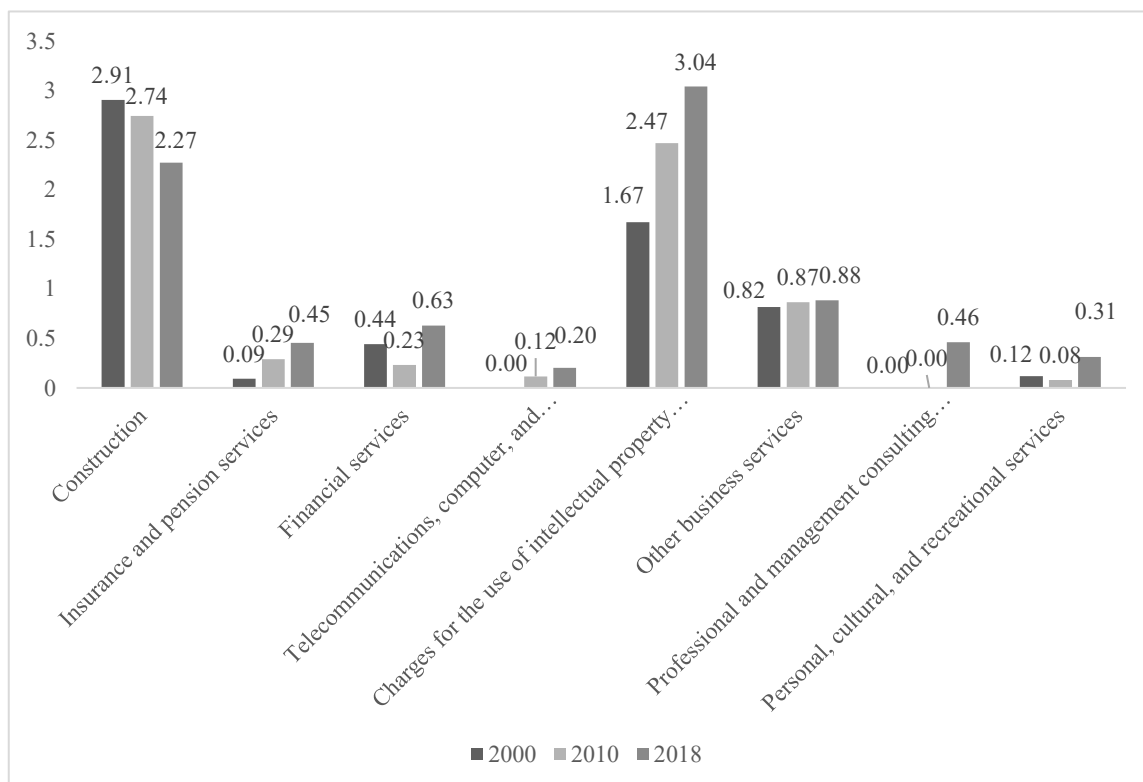
Source: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html>
(accessed April 22, 2020)

Note: ^{a/} RCA could not be calculated for 1990 due to non-availability of required data for this subsector.

Table 3: Composition of Japan's other services exports,
Selected Years (2005-18) (%)

Sectors	2005	2010	2018
Construction	7.08	7.91	4.80
Insurance and pension services	0.85	0.95	1.26
Financial services	4.97	2.68	5.98
Charges for the use of intellectual property n.i.e.	17.27	19.85	23.73
Telecommunications, computer, and information services	1.49	1.32	2.38
Telecommunications services	0.39	0.55	0.66
Other business services	18.39	23.57	21.65
Research and development (R&D)	3.43	3.04	3.60
Personal, cultural, and recreational services	0.09	0.11	0.33

Source: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html>
(accessed April 22, 2020)

Figure 10: Japan's RCAs in select categories of other services
Selected Years (2000-18)

Source: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/392/index.html>
(accessed April 22, 2020)

The composition and pattern of competitiveness in Japan's exports complements the services import basket for India in segments such as financial and insurance services and IP related charges. The same holds in the case of Japan's import basket and trends, which complement India's areas of export strength, such as telecommunications, computer and information services. There also appears to be scope for two-way flows in segments such as other business services, which feature importantly in both countries' exports (22 percent for Japan and 32 percent for India) as well as imports (22 percent for both). Thus, an overview of the trends in services trade in both countries indicates several areas of complementary interests and strengths in the services basket. Also, given the variety of services where such potential exists, all modes of delivery, i.e., cross border, movement of providers, commercial presence, and of consumers would appear to be relevant for expanding service sector relations between the two countries.

2.1.3 India's services trade flows

We next examine the extent to which these complementarities are borne out in their bilateral trade flows in services. Bilateral up to date services trade data is not readily available from multilateral sources. One source notes that Japan exported 1.3 percent of its services exports to India in 2017, which ranked 17th among its service export markets. This was meagre compared with China, which ranked second and accounted for 12 percent of Japan's services exports.¹⁹ According to this data, in 2017, India exported US\$ 4.8 bn worth of services to Japan, or 2.7 percent of its total services exports that year. Its services imports from Japan were valued at US\$ 4 bn in 2015, or 3.5 per cent of its total services imports. It thus registered a slight trade surplus with Japan in services. Table 4 provides the trends in India's services exports to and imports from Japan over the 2005-15 period. The figures for bilateral services flows indicate that there has been very little increase in both India's services exports to and imports from Japan and the absolute values overall as well as in individual subsectors remain very low. India had a slight trade surplus in services with Japan in 2015.

Table 4: India's Trade in Services with Japan
(in USD billions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
India's exports to Japan	1.84	2.66	3.04	4.02	3.04	4.03	4.09	4.19	4.13	5.01	4.81
India's imports from Japan	1.6	2.09	2.37	2.93	3.04	3.62	4.66	4.62	3.83	3.84	4.02

Source: https://stats.oecd.org/Index.aspx?datasetcode=TIVA_2018_C1 (Accessed 7 April 2020)

¹⁹ <http://www.worldstopexports.com/japans-exported-services/>

Table 5 provides the sub-sectoral breakdown for services trade between India and Japan. Among the subsectors, IT and information services accounted for 63 percent of India's services exports to Japan. At a meagre US \$3 bn, merely 4 percent of India's total IT and information services exports to the world went to Japan as compared to 46 percent in case of the US. This was followed by other business services exports to Japan, which were valued at \$586 million. India's services imports from Japan are dominated by finance and insurance services and transport services, valued at around \$1 bn, followed by other business services.

Table 5: India's Trade with Japan in selected service sectors
2015 (USD Millions)

Sector	Services Exports	Services Imports	Normalized Bilateral RCA (BRCA) ²⁰
Total services	4815.8	4033.5	
Transport	280.8	986.6	-0.47
IT and information	3052.5	51.7	0.17
Finance and insurance	288.5	1021	-0.23
Other business	585.7	582.6	0.03
Arts, entertainment, recreation and other	6.2	11.7	-0.77
Telecommunications	12.9	4.8	-0.71
Education	3.4	0.3	-0.58

Source : https://stats.oecd.org/Index.aspx?datasetcode=TIVA_2018_C1 (Accessed : 10 April 2020)

Thus, the bilateral relationship in services is dominated by a few service subsectors. The positive bilateral trade balance (US \$0.8bn) in services is mainly due to IT and information services (US \$3 bn) which offsets the deficits in finance and insurance services (US\$ 0.7bn) and transport services (\$0.7 bn). The bilateral RCA measures indicate India's relative advantage in IT and other business services vis-à-vis Japan.

²⁰ Bilateral RCA is a measure of competitiveness which is calculated as the ratio of the share of sectoral exports of service to a partner country in the country's overall services exports to the partner nation to the share of that country's sectoral service exports to the world in its overall services exports to world. Normalized BRCA = (BRCA-1)/(BRCA+1). BRCA value greater than zero indicates advantage and BRCA value less than zero indicates a disadvantage.

It is important to note that bilateral data on services trade has its limitations and there are discrepancies across data sources. While the OECD TiVA data shows India as having services exports of \$4.8 bn to Japan in 2015 and a trade surplus in services, which is similar to the level of services exports (\$4.7bn) reported by the Indian Commerce Ministry, the export figure given by Extended Balance of Payments Services classification 2010 (EBOPS 2010) is much lower at \$1.6bn.²¹ These differences are most likely due to differences in the classification of services and coverage of the four modes of services trade across the different datasets. An attempt was made to validate the figures based on JETRO statistics. However, this could not be done as Japan's services imports from India were not available publicly (goods imports from India were estimated at \$4.8b in 2015, comparable to that for services imports according to TiVA). The analysis in this report is based on the TiVA data given its comparability with the data available from the Indian Commerce Ministry. However, it must be seen in light of these data limitations and discrepancies across data sources.

Table 6 presents the significance of the two countries in each other's services exports and imports across different services based on the OECD TiVA statistics. Two subsectors stand out in this relationship. India accounted for 14 percent of Japan's IT and information services imports, although Japan is not as important an export market for India, at less than 4 percent of total IT services exports. In the case of finance and insurance services, both countries are important for each other. Japan accounted for almost 5 percent of India's finance and insurance services imports while India accounted for 6.7 percent of its exports in this sector. India is also an important market for Japan's construction services exports, accounting for 5.7 percent.

²¹ See, <https://www.livemint.com/Politics/S7iA23p9KRrKMiWiy7YbqI/Indias-exports-to-Japan-halve-to-385-billion-in-four-year.html> and https://stats.oecd.org/Index.aspx?DataSetCode=TISP_EBOPS2010.

Table 6: Significance in each other's exports and imports of services
2015 (%)

Indicator	Total services (incl. construction)	IT and other information services	Total business sector services	Other business sector services	Financial and insurance activities	Transportation and storage	Construction
Exports							
Japan's significance in India's services exports to the world	2.74	3.89	2.77	2.93	3.20	1.00	-
India's significance in Japan's services exports to the world	1.76	1.45	1.76	1.24	6.68	1.53	5.72
Imports							
Japan's significance in India's services imports from the world	3.48	1.05	3.53	2.95	4.94	3.62	3.48
India's significance in Japan's services imports from the world	2.09	14.04	2.12	1.04	1.34	0.59	0.00

Source: <https://stats.oecd.org/index.aspx?queryid=75537#> (accessed April 23, 2020)

Overall, the bilateral trade structure in services indicates the complementary strengths of the two countries, as also highlighted earlier. India's exports to Japan are concentrated in two services, IT and information services and other business services, two skilled labour-intensive services, where it also has a revealed bilateral comparative advantage. Its imports from Japan are relatively more diversified and in subsectors which reflect Japan's comparative advantage in technology, infrastructure and knowledge-intensive services. However, the trends indicate asymmetries in the relationship, and scope to expand trade flows between the two countries in areas such as IT and information services. The one subsector where trade flows are symmetric is other business services. As this is a subsector that comprises of a wide variety of services, the trends suggest potential for two-way trade flows and complementarities within this segment. The pattern of bilateral services trade flows also indicates likely linkages between services trade and investment flows between the two countries given the significance of subsectors such as finance and insurance, construction, and transport services where FDI based delivery is important. We next examine the significance of the services sector in India-Japan FDI relations.

2.2 Services FDI in India and Japan

Both India and Japan are important globally as destinations and/or sources of FDI. According to the UNCTAD World Investment Report 2019²², Japan's total inward stock of FDI and its total outward stock of FDI stood at \$231 bn and \$1.7 trillion, or 4.3 percent and 33.5 percent of its GDP, respectively, in 2019. Its inward and outward FDI flows amounted to \$9.8 bn and \$143 bn or 0.8 percent and 11.9 percent of GDP, respectively in 2019.²³ India's inward and outward FDI stock were valued at \$386 bn and \$166 bn, or 14.2 percent and 6.1 percent, respectively of GDP in 2019. In terms of FDI flows, inward and outward FDI flows for India were valued at \$42 bn and \$11 bn, or 5.3 percent and 1.4 percent of GDP, respectively in 2019.²⁴

The overall FDI trends for the two countries make evident the complementarity in the case of investments, with India being a key destination for FDI and Japan being a key country of origin for FDI. While India ranked 9th among all countries as a recipient of FDI, Japan ranked 2nd among all countries as a source of FDI in 2018²⁵. The service sector is an important sector in these flows, as discussed next.

2.2.1 Services FDI in India

The services sector, comprising of Financial (banking and insurance) as well as Non-Financial (business, outsourcing, R&D, courier, technical testing and analysis, and misc. services) is the main destination sector for FDI flows to India. The average share of services in India's inward FDI has risen over time, from 10.5 percent for the 1990-94 period to 28.3 percent during the 1995-99 period and further to 75 percent of total FDI inflows at \$28 billion in 2017-18. Cumulative FDI inflows into services for the January 2000-March 2018 period stood at \$222.9 billion or roughly 60 percent of total cumulative FDI inflows over this entire period. Service sector FDI has grown more rapidly than manufacturing FDI, with a CAGR of 28.4 percent between 2013/14 and 2017/18 compared to a mere 2.1 percent CAGR for manufacturing FDI over this same period.²⁶ Given the importance of FDI in not only bridging the savings–investment gap but also its potential contribution through technological spillovers, upgrading of regulatory standards, and adoption of international best practices, the importance of the service sector in India's FDI inflows is of significance. Within services, the segments which have account for the majority of FDI include financial, communication, distribution, computer, and business services. Figure 11 illustrates the composition of FDI inflows in India's service sector in 2018-19.

²² https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/World_Investment_Report.aspx

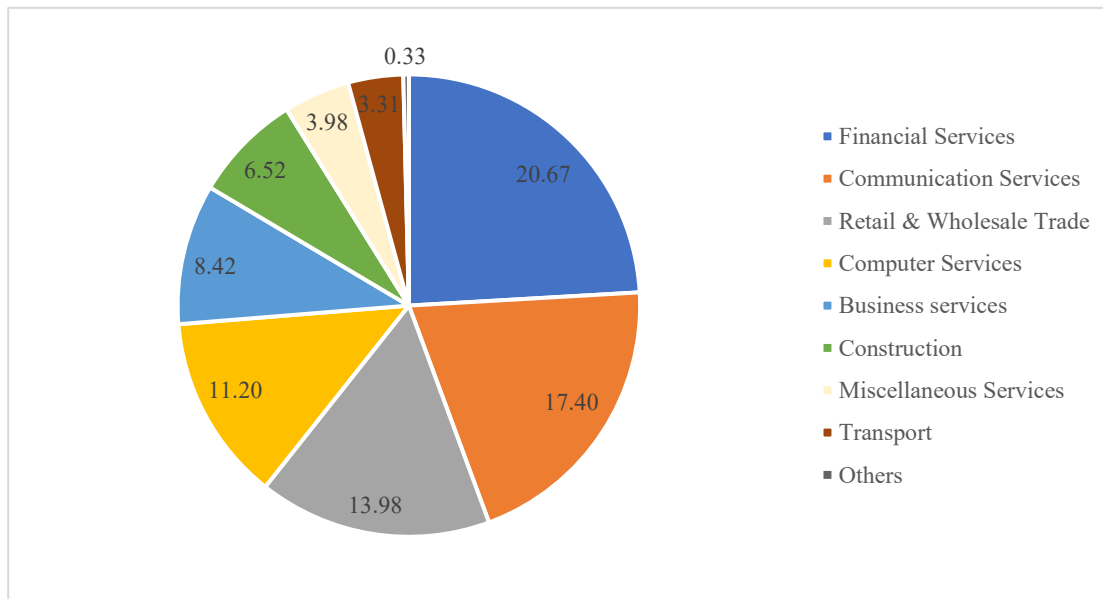
²³ https://unctad.org/sections/dite_dir/docs/wir2019/wir19_fs_jp_en.pdf

²⁴ https://unctad.org/sections/dite_dir/docs/wir2019/wir19_fs_in_en.pdf

²⁵ https://unctad.org/sections/dite_dir/docs/wir2019/wir19_fs_in_en.pdf

²⁶ See, DIPP (2018) and RBI Handbook of Statistics (various years).

Figure 11: Composition of India's inward FDI in services 2018-19 (%)



Source: <https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1249>

These trends reflect India's internal growth and liberalization dynamics which have driven FDI in India's services sector. Key services, such as telecommunications, banking, and insurance have been opened up to attract much needed foreign capital and technology, and to encourage competition and efficiency. Many services, including, construction, housing and townships, hospitals and diagnostics, wholesale cash and carry trade, and computer related services have been put on automatic approval route for FDI and have been fully liberalized. There have been amendments to the FDI policy in areas such as real estate, civil aviation, single and multi- brand retail, e-commerce, and news broadcasting in terms of more liberal minimum capitalization and exit conditions, relaxed norms for Non-Resident Indians, and relaxed FDI entry caps. Some significant FDI approvals in recent years include Japan's entry into the Indian market for construction of India's first bullet train, Amazon India's expansion in the logistics space, and Google's investment plans in the area of broadband services.²⁷

Along with inward investment, India's outward investment in services has also grown over the past two decades. The share of services in total approved outward FDI was 53 percent of approved equity during the 2000-14 period. Table 7 provides the sectoral composition of outward FDI for the services sector.

²⁷ See, Chanda (2019)

Table 7: Composition of India's Outward FDI approvals and equity in the services sector
2014-15 and 2019-20 (mns of US\$ and %)

Sector	2014-2015		2019-2020	
	Value (US \$mns)	Share (%)	Value	Share (%)
Agriculture and Mining	491.37	7.22	640.33	5.23
Community, Social and Personal Services	332.45	4.89	199.19	1.63
Construction	298.38	4.39	875.47	7.15
Electricity, Gas and Water	10.30	0.15	797.27	6.51
Financial, Insurance and Business Services	2004.14	29.46	3674.13	30.00
Manufacturing	2019.72	29.69	2813.63	22.97
Miscellaneous	39.52	0.58	35.25	0.29
Transport, Storage and Communication Services	785.31	11.54	890.85	7.27
Wholesale, Retail Trade, Restaurants and Hotels	821.75	12.08	2322.61	18.96
Total	6802.94	100.00	12248.73	100.00

Source: <https://www.indiastat.com/table/industries-data/18/sector-wise-foreign-direct-investment-fdi-equity-inflows/449572/1115496/data.aspx>

Within services, outward FDI from India is dominated by financial and business services, including IT-IT enabled services, even surpassing India's outward FDI in manufacturing in 2019-20. This is followed by trade and distribution services. DIPP data shows that during the 2000-14 period, the IT-ITeS segment accounted for the bulk of outward FDI approvals. In segments such as IT, restaurants and hotels, and construction, Indian firms have increasingly emerged as exporters of capital. In IT services, overseas investments have taken the form of greenfield ventures, including the setting up of R&D centres for work on new technologies like blockchain application and artificial intelligence, and acquisitions of overseas firms in areas like cloud services, and analytics.

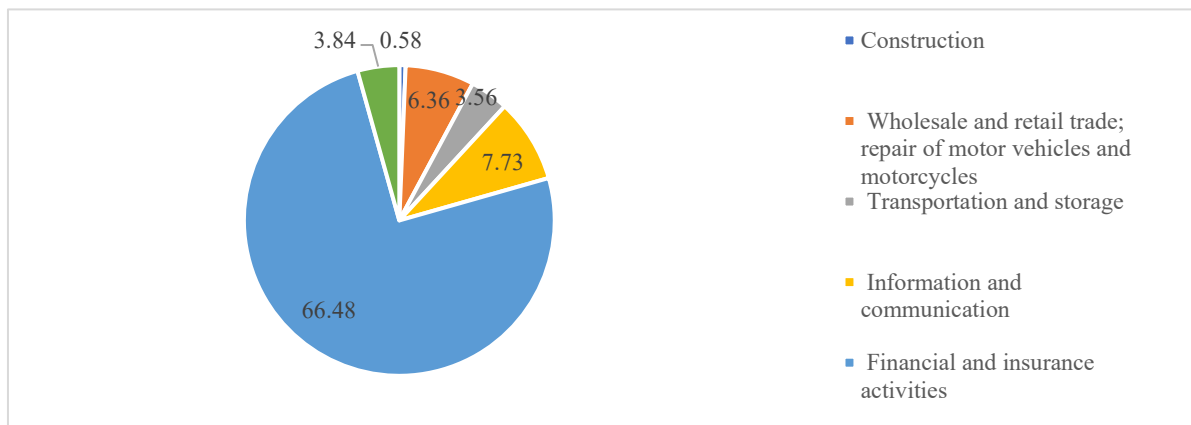
Overall, India's services FDI overseas has been facilitated by the government's relaxation of guidelines for investments abroad.²⁸

²⁸ See, India Brand Equity Foundation (2018)

2.2.2 Services FDI in Japan

As highlighted earlier, Japan does not feature among the leading destination markets for global FDI. Investments in Japan are towards a mix of manufacturing and non-manufacturing industries, including electric machinery (41.8 percent), finance and insurance (24.9 percent), transport equipment production (15.6 percent), chemicals and pharmaceuticals (8.5 percent), and real estate (4.7 percent).²⁹ Thus, unlike in the case of India, services do not dominate inward FDI in Japan, accounting for less than 40 percent. Within inward services FDI, finance and insurance activities dominate followed by several other services such as information and communication, transport, distribution and construction services, as illustrated in Figure 12.

Figure 12: Composition of Japan's inward services FDI 2017 (%)



Source: OECD Statistics

Note: This data is based on FDI position

Japan is more important globally as an outward investor. Services constitute the bulk of Japan's outward FDI, at over 60 percent in 2018. Table 8 provides the composition of Japan's outward FDI by industry, in 2018. It highlights the significance of certain services, especially communication services.

²⁹ Based on JETRO statistics, <https://www.jetro.go.jp/en/reports/statistics/>

Table 8: Japanese outward FDI by industry
2018 (US\$ bns)

Industry	Value
Communications	38.96
Finance and insurance	24.94
Chemicals and pharmaceuticals	14.31
Wholesale and retail	14.04
Transportation equipment	12.73
Electric machinery	8.14
Mining	7.81
General machinery	6.21
Real estate	4.6
Iron, non-ferrous and metals	3.68
Construction	2.46
Transportation	2.1
Glass and ceramics	1.77
Textile	1.77
Rubber and leather	1.58
Precision machinery	1.19
Lumber and pulp	1.07
Petroleum	0.49
Food	0.34
Fishery and marine products	0.05
Farming and forestry	0.02
Services	12.93

Source:

<https://www.statista.com/statistics/742748/japan-outward-fdi-by-industry/>, based on Bank of Japan, JETRO, Ministry of Finance, Japan (release date December 2019)

Table 9 shows the breakdown of Japan's outward services FDI for the 2014-18 period. Finance and insurance services dominate, followed by distribution and information and communication services.

Table 9: Composition of Japan's outward FDI in services
2014-18 (%)

Service sector	Share (%)
Construction	1.08
Wholesale and retail trade; repair of motor vehicles and motorcycles	29.38
Transportation and storage	2.69
Information and communication	13.64
Financial and insurance activities	41.61
Real estate activities	3.86

Source: OECD

Thus, the trends in FDI suggest that Japan and India strongly complement each other in terms of the direction of overall FDI flows but also specifically in the services sector. Services constitute the main recipient sector for India's inward FDI while they constitute the main destination sector for Japan's outward FDI. We next examine the bilateral FDI flows between India and Japan and the role of the service sector.

2.3 Bilateral FDI Trends – India and Japan

The bilateral relationship in FDI between Japan and India has grown over the years. In 2019-20, Japan featured among the top 5 source countries for India's FDI inflows (the leading source countries being Singapore, followed by Mauritius and the Netherlands). For the April 2000 to March 2019 period, Japan ranked as the third most important source country for FDI inflows to India, with a cumulative FDI inflow of US\$ 30 billion over this period.³⁰

FDI from Japan to India is largely concentrated in manufacturing. According to a JBIC report³¹ on the overseas business operations of Japanese manufacturing companies, India was ranked as the top-most country for potential mid-term (3 years) and long-term (10 years) business expansion. In four major industries- automotive, electrical equipment and electronics, chemicals and general machinery, India was ranked as the destination market with the most potential. Reflecting this potential, there has been a significant rise in the number of Japanese companies in India over recent years. A survey carried out by JETRO and Embassy of Japan in India found that the number of Japanese companies registered in India as of October 2018 was 1441 while the total number of Japanese business establishments was 5102, with a 5 per cent growth over the number in 2017³².

Although the main sectors in India which have attracted Japanese FDI are the automobile and pharmaceuticals sectors, in recent years, according to DIPP source, there is a shift towards services. In 2019-20, the service sector, comprising of Financial, Banking, Insurance, Non-Financial /Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, accounted for 15 per cent of FDI inflows from Japan to India. Table 10 highlights the sector-wise distribution of Japan's FDI in India.

³⁰ DIPP, FDI Synopsis for Japan.

³¹ Japan Bank for International Cooperation (JBIC), 2019, Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

³² https://www.in.emb-japan.go.jp/PDF/2018_co_list_en_pr.pdf

Table 10: Sector wise distribution of FDI inflows from Japan to India
(Jan 2000 to Dec 2016)

Rank	Sector	Amount of FDI equity inflows		Percentage of FDI equity inflows from Japan
		Rs. in crores	US\$ in millions	
1	Automobile Industry	26,634.46	4,729.42	18.70
2	Drugs and Pharmaceuticals	22,082.46	4,463.71	17.65
3	Services Sector*	21,301.07	3,746.75	14.81
4	Metallurgical Industries	12,297.24	2,274.44	8.99
5	Telecommunications	12,723.82	1,980.64	7.83
Total of above		95,039.05	17,194.96	67.98

Source: FDI Synopsis Report 2016 DIPP, Ministry of Commerce and Industry, India, http://dipp.nic.in/sites/default/files/Chapter6.1.A.iii_2.pdf (Accessed on 05/10/2018)

Note: *Services Sector includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, Tech, Testing and Analysis

Japan's growing interest in India's services sector is in line with the pattern of its overall outward FDI flows in which Finance and Insurance services dominate. For instance, three major Japanese banks (Mizuho, Bank of Tokyo Mitsubishi UFG and Sumitomo Mitsui Banking Corporation) have their operations in India. Their operations include lending to Japanese firms operating in India as well as providing yen denominated cross border syndicated loans to non-Japanese borrowers. There are also Japanese asset management companies (Nomura Securities, Sumitomo Mitsui, Nikko Securities) which provide securities brokering, underwriting and advisory services and have bought stakes in Indian financial sector companies. Several Japanese life insurance companies (Nippon, Dai-ichi) have entered into joint ventures with Indian and foreign companies and are operating in India. Other services where Japanese presence is growing in the Indian market include healthcare and telecommunications. India's first 100 percent FDI hospital (Sakra in Bangalore) has majority shareholding by Toyota Tsusho Corporation. Japanese companies (Spiral Ventures and India Japan Partnership Fund LLP) are also investing in local healthcare start-ups in India. In the telecommunications sector, NTTDoCoMo had earlier formed a joint venture with TATA though it had to exit later, and SoftBank is planning an investment of US \$10bn by 2022. There is also investment interest in the hospitality segment, though to a limited extent at present.³³

³³ See, Roy and Chanda (May 2019) for a detailed discussion of Japan's FDI in India.

The trends discussed above indicate the growing interest among Japanese firms to invest in India, including in its services sector. However, it is important to note the asymmetric nature of the India-Japan FDI relationship. Although Japan is an important source of FDI for India, accounting for 7 percent of its inward FDI in 2018, as a destination market for Japanese FDI, India only accounted for 2 percent of Japan's total outward FDI in 2018. It ranked among the top 20 recipients in 2018 but was far behind the leading recipients of Japanese FDI which were the US, China and Europe.³⁴ Similarly, in terms of India's outward FDI, although Japan was among India's top 10 outward FDI destinations in 2018, with Indian companies investing US \$0.4 bn between April-November 2019 in Japan, and the number of Indian companies in Japan standing at above 100 in 2018, it accounts for a relatively small share of India's OFDI.³⁵ EXIM bank data on India's outward FDI indicate that the main destinations for India's outward services FDI are the UAE, Singapore and Mauritius and to a more limited extent the US and the UK. Japan does not feature among the leading recipient markets.³⁶

2.4 Summarizing the key insights

The discussion on bilateral trends in services trade and FDI indicate the many complementarities between the two countries, in terms of the direction of flows, the sectors, and the modes of interest, notwithstanding the highlighted data limitations in terms of obtaining services trade statistics. These complementarities arise from their resource endowments, demography, technology and market needs. The trends also indicate the scope for expanding and diversifying trade and investment relations as well as non-commercial engagement between the two countries. Surveys of Japanese companies highlight their growing interest in the Indian market, but the evidence suggests that this interest has not yet translated into India becoming one of the leading recipients of Japanese FDI. On the other hand, India's services exports remain largely concentrated in the Western developed country markets while the Asia-Pacific region, including Japan, continues to account for only a small part of these exports and growth remains below potential. This is notwithstanding the recognized potential for exporting to this region and the need to diversify export markets for India's IT and other business services. It is thus important to examine this potential by delving into specific services and also to understand the factors that are constraining the realization of these prospects.

³⁴ https://unctad.org/sections/dite_dir/docs/wir2019/wir19_fs_jp_en.pdf

³⁵ DIPP, FDI Fact Sheet

³⁶ See, Chaudhry et. al (2018); Export-Import Bank of India (2014); DIPP (2018); RBI Handbook of Statistics.

3. Selected Services & India – Japan Engagement

In this section we provide an overview of four selected services from a country as well as bilateral perspective. These services include education services, IT-ITeS, technology start-ups with focus on healthcare, and construction and engineering services.³⁷ The choice of these sectors is in part motivated by the preceding overview of the pattern of trade and investment flows for the two countries in that these services feature importantly in either their current international or bilateral flows. The choice of sectors is also motivated by discussions with experts which highlighted areas where currently bilateral engagement may be limited but there are prospects for increasing collaboration and commercial relations. The discussion also outlines bilateral initiatives already undertaken between India and Japan. The objective is to provide the context so as to better understand the opportunities and challenges for expanding India's relations with Japan in the selected services and also in related areas. It is important to note at the outset that much of the background information on these different services for the two countries as well as information on their bilateral relations in these services is sourced from a mix of industry reports, newspaper articles, working papers, summary documents provided by consulting firms, JETRO and JBIC surveys, and other documents, as there is a dearth of rigorous academic literature on the same.

3.1 Education Services

This is a sector which currently does not feature in the trade and investment statistics as a major area for engagement. However, a review of existing initiatives and discussions with private sector and government sources suggest that this sector holds a lot of promise.

3.1.1 India

India's education sector was estimated at US \$91.7 bn in 2018-19 and was projected to grow to US \$101.1 bn by 2019-20³⁸. The higher education segment has experienced high growth in recent years. In 2017-2018, nearly 36.64 million students were enrolled in higher education in India (although these enrolment rates are not at par with those of its peers such as China (43 per cent) and Brazil (51 per cent)). With the world's largest population in the age bracket of 5 to 24 years and with the population in the tertiary age group of 18-22 expected to rise to 126 mn by 2026³⁹, India is obviously an attractive destination for trade and investment in education services.

Between 2000 and 2019, cumulative FDI in India's education services sector was estimated at US\$ 2.47 bn⁴⁰. Although FDI presence in this sector is relatively low at present, mainly due to regulatory issues, FDI in this sector is expected to grow due to factors such as India's changing demography, mismatch in demand for and supply of education, the entry of private players, rising demand for a skilled labour force, and growth in online education platforms with Central and State government initiatives such as e-learning and mobile-learning. India ranks as the second largest market for e-learning, next only to the US⁴¹.

³⁷ The initial plan was to cover 5 services, the 5th being Finance and insurance services. However, due to the very limited nature of the response by financial services firms which were approached during the survey, this sector has been excluded from the scope of this study.

³⁸ <https://www.ibef.org/industry/education-sector-india.aspx>

³⁹ <https://www.dfat.gov.au/geo/india/ies/chapter-3.html>

⁴⁰ Report on Education and Training Industry in India, IBEF, 2020 <https://www.ibef.org/industry/education-sector-india.aspx>

⁴¹ Report on Education and Training Industry in India, IBEF, 2018

3.1.2 Japan

The outlook for Japan's higher education sector stands in stark contrast to that of India. With its ageing population, there has been a significant decline in the number of students in the 18-24 age bracket, forcing the universities to run at less than full capacity. In order to bridge this gap, since 2008, the Ministry of Education, Culture, Sports, Science and Technology (MEXT) in Japan has been focusing on the globalization of Japan's higher education sector. One of the targets is to attract 300,000 foreign students by 2020⁴². Other strategies to internationalize the Japanese education sector include providing financial assistance, a support system in the university campuses (through both online and offline modes), and job opportunities to foreign students. In a similar vein, MEXT has come up with a 'Top Global Universities' project to fund some Japanese universities to internationalize their academic systems. The approaches include introduction of programs conducted in English, establishing overseas offices to attract foreign students, among other initiatives. MEXT had also targeted to send 120,000 higher education students and 60,000 high school students abroad for exposure by 2020⁴³. As per JASSO⁴⁴ (Japan Students Service Organization), in 2017, the number of international students in the higher education sector was 188,364. However, 50 per cent of these students were Chinese. The country's low economic growth and linguistic barriers have posed challenges to attracting foreign students from a wider range of countries.

Another area of internationalization is language training. Japan offers a large market for English Language Training (ELT) as English has come to be viewed as a much-needed skill in higher education and for employment opportunities. Due to currency depreciation and low economic growth, Japanese students have been approaching countries which can offer cost-effective short-term ELT courses, rather than going to the US or the UK. Likewise, Japan has opportunities for exporting Japanese language training to other countries or tying up with universities for provision of such language courses given the growing demand for learning foreign languages around the world.

3.1.3 Bilateral Prospects

Given the context on both sides, there are several areas and modes for engagement between India and Japan in education services. These include possibilities for student exchange between the two countries, Indian students pursuing higher education in Japan, FDI from Japan in Indian higher educational institutions and start-ups (edu-tech firms), ELT provision by Indian teachers and institutions, internships for Indian students with Japanese companies in India and in Japan, and scientific research and other collaborations between Indian and Japanese educational institutions.

⁴² See <https://www.japantimes.co.jp/news/2018/10/22/national/government-aims-300000-international-students/#.XqspJ2gzblU>

⁴³ <https://www.mext.go.jp/en/policy/education/lawandplan/title01/detail01/sdetail01/1373805.htm>

⁴⁴ https://www.jasso.go.jp/en/about/statistics/intl_student/data2017.html

Several of these opportunities, especially those of a collaborative nature, are reflected in ongoing initiatives between the two countries. One such initiative is the Project for “Future Researchers at the Indian Institute of Technology, Hyderabad to Enhance Network Development with Scholarship of Japan” (FRIENDHIP) Programme which commenced in 2012 for a period of 8 years and has now been extended to 2024. This programme is funded by Japan International Cooperation Agency (JICA) and aims to bolster collaboration between IIT Hyderabad (IITH), 11 leading Japanese universities such as Kyoto University, University of Tokyo among others and Japanese companies, by providing scholarships, academic exchange (students as well as faculty) and industrial exposure. This programme also promotes faculty exchange between the partner institutes by facilitating and promoting special lectures, short-term research visits, workshops and symposiums for IITH faculty and Japanese researchers. This programme also provides opportunities for IITH students to intern at Japanese companies located in India as well as recruitment-based interactions. Industrial collaboration with IITH and these companies is also supported through R&D collaboration, joint workshops and special lectures by industry experts. Further, JICA funds the Collaboration Kick Starter Program (CKP) in order to promote industry and academic collaboration between IITH and Japanese academia and industry. This program promotes the students’ interactions with Japanese academia and industry. The JICA-FRIENDSHIP Programme has helped to send around 74 students from IITH for higher studies to Japanese universities. The program has also held academic fairs to promote higher education in Japan by encouraging interactions between prospective and current students in Japanese universities⁴⁵.

Another initiative reflects the scope for bilateral engagement in language training. In 2017, a Memorandum of Cooperation was signed between the two countries in order to promote the expansion of Japanese language training in India to enable cooperation in a variety of sectors. This Memorandum aims to establish a Japanese Language Teacher’s Training Center in India to train 1000 Japanese language teachers as well as providing Japanese language certificate courses in 100 higher education institutes in India by 2022. This Training Centre was established at the Jawaharlal Nehru University (JNU), New Delhi in July 2018 and completed its first 3-month long programme in October 2018.⁴⁶ More generally, the two countries have agreed to work together to promote Japanese language studies in India, with a target of 30,000 learners at different levels over the next 5 years. The measures include introducing Japanese as an optional foreign language in the secondary school curriculum, establishing Centres of Japanese Studies at Indian universities and institutions where Japanese is being taught, and Japanese language teaching cells in 7 Indian Institutes of Technology.

There is also the India-Japan Education Programme (IJEP), which is a collaboration between academia, industry and Government agencies in India and Japan in five sub programmes, namely railways, infrastructure, innovation, technology management and information science. This programme aims to foster extensive collaboration between Indian schools - the IITs and IIM Bangalore and Faculty of Engineering at the University of Tokyo, to train future global professionals as well as to internationalize higher education, without compromising on quality. This program provides opportunities for scholarships, remote lectures, short-term programmes, summer internships, collaborative research as well as joint teaching for students and faculty from the two countries.

⁴⁵ See <http://friendship.iith.ac.in/>

⁴⁶ See <https://pib.gov.in/newsite/PrintRelease.aspx?relid=184461>

Recently, Maruti Suzuki India, IIT Guwahati, Association for Overseas Technical Cooperation and Sustainable Partnerships (AOTS), Japan and Suzuki Motor Corporation have entered into a collaboration to promote training in technical education between the two countries. The collaboration will involve an automobile engineering course where technical training will be provided through Maruti Suzuki India and Suzuki Motor Corporation, Japan. Further, a Japanese language course will be conducted by AOTS for the students of IITG. The collaboration also provides students with an opportunity for internships at Maruti Suzuki.⁴⁷

The Japan-India engagement in education is also growing in other areas such as Industry 4.0 technologies, online education, and skilling and vocational training. For instance, Japan is trying to enter into partnerships with Indian educational institutions in emerging areas such as AI, machine learning, and block chains. Very few Indian universities and engineering institutes have such courses at present or the requisite research infrastructure and faculty and this is an untapped area. Japan is looking to enter the online education market in India, especially in language training.

Another important partnership initiative is in the area of vocational education and skilling. In 2017, the Technical Intern Training Program (TITP) for Japan was launched as per a Memorandum of Cooperation signed between the Indian Ministry of Skill Development and Entrepreneurship (MSDE) and the Japanese Ministries of Justice, Foreign Affairs, Health, Labour and Welfare.⁴⁸ The National Skills Development Corporation (NSDC) has been designated as the Monitoring agency to oversee the execution of TITP in India. Under this initiative, NSDC identifies institutes which train people and makes them ready to work in Japan. The process involves IQ tests and training in language skills, an interview, followed by placement in factories or as care workers/nurses and other skilled/semi-skilled jobs. Thus far, an awareness workshop has been conducted by JITCO and the Japanese Embassy, several interns have been trained by CII in consortium with Nihon Technology and placed in Japan. Several interns have been trained by Navis Nihongo as care workers and sent to Japan. The uptake thus far has been poor with only a total of 24 sending organizations being empanelled and 44 interns placed in Japan since 2017.⁴⁹ One of the main reasons is cost (around Rs. 250,000) which is borne by the person. Loans are also not available. In contrast, in countries like China which have placed thousands of workers in Japan under such skilling partnership programs, the government has borne the training cost.⁵⁰

There are several other collaborations which have been initiated between the two countries. These span education services, as well as other areas such as IT, engineering and R&D services, some of the other sectors under focus in this study.

⁴⁷ <https://www.marutisuzuki.com/corporate/media/press-releases/2020/iit-guwahati-aots-japan-suzuki-motor-corporation-and-maruti-suzuki-india-limited-sign-memorandum>)

⁴⁸ TITP first commenced in 1993 in Japan. It aims to promote international cooperation by transferring professional skills to young and middle-aged youths of developing countries.

⁴⁹ See, <http://www.msde.gov.in/reports-documents/Skill-Engagements/International-Collaborations>
<https://nsdcindia.org/sites/all/themes/ibeas/images/titp/TITP-RFP-Phase-III-29-11-19.pdf>

⁵⁰ <http://www.msde.gov.in/reports-documents/Skill-Engagements/International-Collaborations>

Box 1: Existing Bilateral Education and R&D Initiatives between India and Japan

- MoC between the National Institute of Polar Research (NIPR) of Japan and the National Centre for Polar and Ocean Research of India on Polar Research (NCPOR) (October 2018).
- Agreement for Cooperation between Institute of Innovative Research, Tokyo Institute of Technology, Japan and Council of Scientific & Industrial Research (CSIR), India was signed (October 2018)
- Memorandum of Understanding on Further Cooperation toward Indo-Japan Global Startup between Nagasaki University and IIITDM was signed in October 2018.
- MoU between Council of Scientific & Industrial Research (CSIR), India and Hiroshima University for research partnerships was signed in October 2018.
- MoU between CSIR, India and Research Centre for Advanced Science and Technology (RCAST), University of Tokyo for R&D cooperation in areas such as Mechatronics including Robotics, Surface Engineering, Energy Storage (especially solar to chemical), and Optoelectronics was signed in October 2018.
- Hokkaido University signed four Academic Exchange Agreements and Memorandums of Understanding on Student Exchange respectively with Indian Institute of Technology Bombay (January 2018), Indian Institute of Technology Madras (March 2018), Indian Institute of Technology Hyderabad (April 2018), and Indian Institute of Technology Kanpur (October 2018).
- Memorandum of Understanding Between Shizuoka University, Japan and National Institute of Pharmaceutical Education and Research (NIPER), S. A. S. Nagar was signed in October 2018.
- Nagasaki University signed three Letters of Intent (LoIs) with All India Institute of Medical Sciences (AIIMS), Indian Institute of Science (IISc), and Indian Institute of Technology Delhi (IIT Delhi) respectively for education and academic research cooperation in July 2018.
- Department of Mechanical Engineering, Department of Nuclear System Safety Engineering, Nagaoka University of Technology signed two Agreements of Academic and Research Collaboration respectively with Department of Mechanical Engineering, Indian Institute of Technology, Tirupati (January 2018) and School of Engineering Discipline of Metallurgy Engineering and Material Science, Indian Institute of Technology Indore (July 2018)
- Memorandum of Agreement on Academic and Educational Exchange between Indian Institute of Technology Delhi, India and Hiroshima University Japan (May 2018).
- Memorandum of Agreement for Student Exchange between Indian Institute of Management Ahmedabad (IIMA) and Hiroshima University, Japan (April 2018).
- Memorandum on Student Exchange between Hiroshima University, Japan and CSIR-Central Mechanical Engineering Research Institute (CSIR-CMERI) (January 2018).
- Memorandum to Academic and Educational Exchange Agreement between Hiroshima University, Japan and Indian Institute of Engineering Science and Technology, Shibpur, India (January 2018).
- Agreement on Academic and Educational Exchange and Memorandum to Academic and Educational Exchange Agreement between Hiroshima University, Japan and Indian Institute of Technology Bombay, India (IIT BOMBAY) (January 2018)

- Agreement on Academic and Educational Exchange and Memorandum to Academic and Educational Exchange Agreement between Hiroshima University, Japan and Birla Institute of Technology and Science, Pilani, India (BITS-P) (December 2017).
- Annexure to Memorandum of Understanding between the Council of Scientific and Industrial Research through the CSIR – Central Electronics Engineering Research Institute (CSIR-CEERI), Pilani, India and Hiroshima University, Japan Concerning International Collaboration on Research, Academic and Educational Exchange (December 2017).
- Memorandum for an Internship Program between OMRON Corporation, the Graduate School of Information Science and Engineering of Ritsumeikan University, and the Indian Institute of Technology Hyderabad was signed in November 2017.
- India-Japan Joint Laboratories in the area of ICT ("Internet of Things, Artificial Intelligence and Big Data Analytics") "Architecting Intelligent Dependable Cyber Physical System Targeting IoT and Mobile Big Data Analysis" between The University of Tokyo and IIT Bombay; "Data Science-based Farming Support System for Sustainable Crop Production under Climatic Change" between The University of Tokyo and IIT Hyderabad; and "Security in the Internet of Things Space" between Kyushu University and IIT Delhi.
- Initiation of DST-JSPS Fellowship Programme for young researchers

Source: Ministry of External Affairs

As is evident from the long list of collaborations there is a lot of interest between the two countries to undertake joint research and exchange faculty and students in the fields of science and technology. Interestingly, there is not much evidence of engagement in areas outside science and engineering in areas such as history, language, religious, cultural and heritage studies where there is likely to be commonality of interest. At present, engagement through movement of students and teachers between the two countries is relatively limited. There is, however, growing presence of Japanese language institutes as well as kumon franchises and centres in India.

3.2 IT – Enabled Services Sector

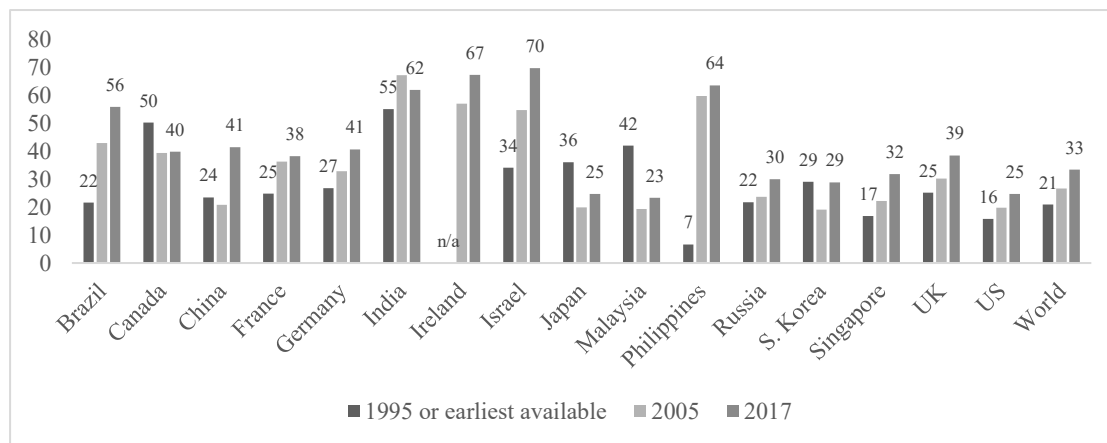
This is a sector which features importantly in both countries' trade and FDI flows with the world. However, the bilateral trade and investment trends suggests that the potential for enhancing bilateral relations between India and Japan remains untapped.

3.2.1 India

India’s IT-ITeS sector contributed to 8 per cent of India’s GDP in 2019, up from a mere 1.2 percent share in 1997-98⁵¹, and has been a growth driver in India’s services sector. The sector comprises of Indian IT service providers as well as the GCCs (Global Capability Centres) that have been set up by various MNCs in India. Today, it is the largest employer in the private sector, providing employment to 4.14 million employees in 2019 and registering growth of 4.3 percent over 2018.⁵²The sector also accounted for a large number of indirect jobs. Between 2001 and 2017, the IT-BPO industry created 3.7 million jobs and contributed to indirect employment of 12 million in 2017⁵³.

The industry’s total turnover was estimated at US\$ 177bn in 2019, of which 51 percent came from IT services, followed by 20% from business process services, and the balance from software products, hardware and engineering services. The industry association, NASSCOM, has targeted revenue of \$350 bn by 2025. The industry is highly export-oriented with export earnings accounting for three fourths of the industry’s turnover. IT and BPO services exports have risen from a mere \$754 mn in 1995/96 to \$9.6 bn in 2002-03, to \$47.5 bn in 2009, and reached \$137 bn in 2019 or over 8 percent of GDP. Of these exports, IT services accounted for \$66 bn, business process services for \$22 bn and software products and engineering services for \$25 bn. These exports are dominated by cross border supply (mode 1) which has overtaken the movement of professionals (mode 4) as the main mode of exports. Mode 1 accounted for 66.5 percent of its total exports in this sector in 2016-17⁵⁴. Figure 13 highlights the importance of this segment in India’s services exports and stronger export orientation compared to other countries.

Figure 13: ICT service exports
(% of service exports, BoP), selected years



Source: <https://data.worldbank.org/indicator/BX.GSR.CCIS.ZS> (accessed November 30, 2018)

Notes:

ICT service exports include computer and communications services (telecommunications and postal and courier services) and information services (computer data and news-related service transactions).

Earliest available years: India 2000, Japan 1996, Malaysia 1999, Philippines 1999

⁵¹ NASSCOM Strategic Review, 2019

⁵² NASSCOM Strategic Review, 2019

⁵³ NASSCOM Strategic Review, 2017

⁵⁴ RBI Survey on Computer Software and ITeS Exports, 2018

India's IT-BPO exports are in a variety of verticals, including the banking and financial services industry (BFSI), telecom, manufacturing, retail, healthcare, and travel and tourism. Despite the financial crisis of 2008, BFSI remains the most important vertical⁵⁵. However, segments such as healthcare and retail have shown rapid growth in recent years. There has also been a gradual movement up the value chain and end-to-end solutions being provided by Indian IT firms, with the growing number of offshore R&D centres being established in India and a shift towards higher-end services such as business analytics, equity research, and market research. Some Indian companies are also adopting the global delivery model by setting up development centres in other regions to take advantage of low costs, cater to the local market and to overcome immigration and data protection related challenges. Such trends are being forced by growing competition, increased commoditization of lower-end-services, and pressures on margins and business opportunities due to protectionist policies in the developed world.

The sector has thus played an important role in India's integration with the world economy. India's share in the global IT services market was 52 percent and its share in the global BPO sourcing market was 38 percent in 2016-17. According to the AT Kearney Offshore Location Attractiveness Index, India has consistently ranked highest among offshoring destinations, due to the combination of its skill availability, favourable business environment, and low cost. The 2019 Index places India as the leading offshoring destination, ahead of China, which is placed second, though the gap is narrowing. Today, India accounts for 55 percent of the offshore IT-BPO market (A.T. Kearney, 2017). Twenty four percent of the 271 new global delivery centres that were set up worldwide by US based firms in 2017 were in India⁵⁶. In 2018, India hosted almost 1140 global in-house captive centres and accounted for 75% of global digital talent. Indian firms have presence in over 80 different countries (A.T. Kearney, 2019). The sector accounts for the highest share of FDI inflows in the form of mergers, acquisitions, GCCs, JVs and alliances. India is expected to remain an important part of the global outsourcing market in future, notwithstanding emerging competition from other developing countries and regions and challenges posed by automation.

Recent policies have enabled the growth of the domestic IT-ITeS sector. In 2018, domestic turnover of this sector stood at US\$ 41 bn, registering a year-on-year growth of 7.9 per cent. This growth has been attributed to multiple schemes by the government such as Digital India, Start Up India, JAM (Jan Dhan-Aadhar-Mobil) etc. which are incentivizing and facilitating the use of technology. Further, the adoption of digital technologies by Indian firms in order to remain competitive is also facilitating the growth of India's IT services sector. In addition to these domestic initiatives, the liberal trade and investment framework in the IT-ITeS sector has contributed to the growth of this sector.

⁵⁵ NASSCOM Strategic Review, 2019

⁵⁶ NASSCOM Strategic Review, 2018

3.2.2 Japan

The share of IT-ITeS services in the Japanese economy was around 8.2 per cent in 1995 and has remained more or less constant as this sector contributed 9 per cent to the Japanese GDP in 2017. Japan has the third largest IT services market in the world valued at USD 192 billion⁵⁷. The IT industry in Japan resembles a pyramid structure where five companies (Fujitsu, Hitachi, NTT, NEC and IBM) in the highest tier fall in the range of more than USD 5 billion as revenue. The highest tier has only one non-local firm⁵⁸. These firms combinedly account for nearly 45 per cent of the market share in Japan. Further, only two non-Japanese companies feature in the top 20 IT service companies in Japan, by revenue. The second tier IT firms consists of firms having revenue in the range of more that USD 1 billion and there are a couple of dozen local and non-local companies in this cohort. The bottom tier firms have revenues less than USD 1 billion and are primarily engaged in low value-added work. One of the services that is much in demand in the Japanese IT market is embedded software. With rapid advances in technology and the amalgamation of software and hardware through AI, IoT etc., this segment has become even more significant. Various manufactured products such as electronics, automobiles etc. utilize this software. Japan's IT services exports rose from USD 1.3 billion in 2005 to USD 3.5 billion in 2015⁵⁹.

3.2.3 Bilateral Prospects

At present, the bilateral engagement between India and Japan in the IT-BPO sector is limited. India's main destination markets are concentrated in the US and Canada accounting for 60.3 per cent of the total exports, followed by Europe which comprised of 20 per cent. Although Asia's share doubled to 10.4 per cent in 2016-17 from 2008-09, it is still low⁶⁰. Factors such as cultural and linguistic barriers and organizational issues have been highlighted as the main constraints to expanding relations in this sector.

There are, however, a growing number of partnership initiatives between the two countries which suggest the mutual interest and scope to increase engagement in this sector. One such arrangement is the India-Japan Digital Partnership which aims to explore the complementarities between the two countries in the current digital era by syncing together Japan's "Society 5.0" and initiatives such as Digital India, Start-up India and Smart cities in India. It targets cooperation in new ICT initiatives as well as digital technologies. Under this arrangement, internship programs, training courses and job fairs have been introduced to reap mutual benefits from India's talented workforce in the IT sector. In 2018, the Ministry of Electronics and Information Technology, India (MeitY) and Ministry of Economy, Trade and Industry (METI), Japan came together to sign Joint Minutes for Cooperation between the two nations in the ICT sector. NASSCOM and the government of Hiroshima Prefecture, Japan have signed a MoU to co-invest in an India- Japan IT Corridor in Hiroshima to leverage the synergies between the two countries. They aim to incentivize Indian tech companies to come to Japan and to enter into partnerships with Japanese firms, leading to co-creation of innovative products and solutions leveraging the expertise of Indian software firms and Japanese manufacturing firms.

⁵⁷ See <https://atradius.ca/reports/market-monitor-ict-japan-2019.html>

⁵⁸ Gartner

⁵⁹ OECD TiVA

⁶⁰ RBI Survey on Computer Software and ITeS Exports, 2018

At the industry level, there are several examples of partnerships between Indian and Japanese companies. All of these partnerships aim to leverage and combine the expertise of Indian IT companies with the competencies and local knowledge of Japanese companies. For example, TCS Japan and IT Frontier Corporation, Mitsubishi's 100 percent IT subsidiary entered into a tie-up in 2014. The partnership has gone from a 51:49 to 66:34 in 2019. The aim was to complement ITF's long-standing relationships with Japanese companies, talented workforce and competencies in various industries like retail, trading and distribution with TCS' domain knowledge and technology expertise, thus increasing TCS' presence and growth in the Japanese market and also providing global capabilities to Japanese companies. TCS also has a Japan dedicated centre in Pune and receives interns from Japan. This facility caters to the specific business needs of Japanese companies with enhanced language support services. TCA Japan Hikari Academy has been established as a part of the centre with dedicated faculty to provide extensive language training, cultural seminars for staff, and a customized curriculum for Japanese language studies, in collaboration with universities in the Pune area.⁶¹

Another noteworthy partnership is that of Infosys, which entered into a joint venture in 2018 with Hitachi, Panasonic Corporation and Pasona Inc. to form a new venture called HIPUS Co. Ltd.⁶² The new entity will provide Japanese companies with business process transformation using digital procurement platforms. Infosys's global expertise in consulting, analytics, digital technologies such as AI and Robotic Process Automation, and procurement processes would be combined with Hitachi and Panasonic's local expertise and knowledge of procurement processes and Pasona's talent and BPM networks in Japan.

Similarly, Tech Mahindra has entered into a collaboration with Mitsui Knowledge Industry (a wholly owned subsidiary of Mitsui & Co.) in Japan and in other locations.⁶³ The aim is to develop next generation digital enterprise solutions in the Japanese market. For this purpose, they plan to train a 600-member engineering pool in the two countries to address the skill shortage in SAP. Both sides will leverage their competencies, technologies and best practices and will set up dedicated infrastructure to enable Japanese companies to migrate to next generation enterprise solutions such as AI, Blockchain, Cybersecurity, 5G, and Internet of Things.⁶⁴

The Japanese government has also taken steps to ease the movement of Indian professionals. In order to attract talent, Japan has introduced a "green card" system that provides highly skilled Indians such as IT professionals to obtain permanent resident status in Japan within 24-48 months of their residence in Japan. It has also reduced the number of documents needed by Indian professionals to obtain a visa. Another important step is the Totalisation or Social Security Agreement between India and Japan, which was implemented in October 2016. Under this agreement, Indian workers on short-term projects in Japan are exempted from making social security contributions for up to 5 years, thus avoiding double contributions.

⁶¹ See, <https://www.thehindu.com/business/Industry/tcs-mitsubishi-sign-agreement-to-merge-it-units/article5933211.ece>;

<https://www.tcs.com/tcs-inaugurates-japan-centric-delivery-center>, <https://www.infosys.com/newsroom/press-releases/2019/completes-jv-digital-procurement-platforms.html>;

⁶² See, <https://www.newindianexpress.com/business/2019/apr/02/infosys-forms-joint-venture-with-hitachi-pasona-and-panasonic-1958981>, <https://www.hipus.com>

⁶³ See, <https://www.mki.co.jp/english/>

⁶⁴ See, https://www.techmahindra.com/en-in/tech_mahindra_and_mki_collaborate_to_develop_next_gen_digital_enterprise_solutions_for_japanese_market/ and https://www.business-standard.com/article/pti-stories/tech-mahindra-partners-mitsui-knowledge-to-develop-digital-solutions-for-japanese-market-119052801326_1.html

The agreement also allows professionals to seek social security benefits against contributions made in the other country in case they relocate. This also aggregates the periods of contribution made by the professionals in the two countries to be eligible for retirement benefits. An earlier arrangement was made between the Information Technology Promoting Agency (IPA), Japan and National Institute of Electronics and Information Technology (NIELIT) under MEITY, GOI in 2012 to implement mutual acceptance and equivalence of the IT Engineers' examinations and course of both the bodies. The objective was to facilitate the mobility of skilled IT personnel across the two countries through mutual recognition of qualifications and training.⁶⁵

3.3 Technology Start – Ups in Services

Both India and Japan have strong a technology start-up ecosystem. The Indian technology start-up sector is the 3rd largest in the world⁶⁶, with significant growth over the past decade. Japan, which has been a leader of disruptive and innovative technologies, has had a relatively limited start-up community for a variety of reasons. However, the sector is growing in recent years and VC funding in tech start-ups is on the rise, particularly in the areas of financial technology, health technology and Artificial Intelligence. The synergies between the two are strong in this segment as evident from the following discussion.

3.3.1 India

In 2019, India added around 1300 start-ups to its economy, ranking third after the US and China. According to NASSCOM, the number of active start-ups in India are around 39,000 and the total number of unicorns is 24. As of 2019, India was home to nearly 8,900-9,300 tech-based start-ups, of which 50 per were concentrated in the e-commerce and B2B segments. Of the tech-based start-ups in India, nearly 1600 are working in the domain of deep-tech, with a CAGR of 40 percent over the 2014-19 period in the number of such start-ups in India.⁶⁷

Tech start-ups have been attracting a growing amount of funding in recent years. The cumulative amount of funding in tech start-ups was an estimated US \$51bn between 2008-2018. In 2019 alone, tech-based start-ups in India raised a funding of nearly USD 14.5 bn, registering a 55 percent growth over 2018⁶⁸. Initiatives such as the Prime Minister's flagship program 'Start-Up India' launched in 2016 and Digital India, launched in 2015 have contributed to this growth. The Start-up India initiative aimed at bolstering the start-up ecosystem in India through financial assistance, tax exemptions, industry-academia partnership and incubation (housed by universities and educational institutions). The Digital India initiative focused on improving internet penetration and digital infrastructure in rural areas and on providing government services online, thus further widening the business opportunities available to Indian start-ups.

⁶⁵ http://nielit.gov.in/sites/default/files/INT_MoU_Japan.pdf

⁶⁶ Indian Tech-Start Up Ecosystem, 2019 Edition, NASSCOM

⁶⁷ Indian Tech-Start Up Ecosystem, 2019 Edition, NASSCOM

⁶⁸ Tracxn Report, 2019

3.3.2 Japan

Japan was the 6th largest market for VC investments in technology-based start-ups in 2017. However, unlike other countries, it is the rich corporations such as Toyota and Sony which are the main players in Japan's start-up space compared to the VCs. These corporations in turn invest in the VC funds to look for start-ups in upcoming domains. Post the adoption of Shinzo Abe's growth policies in 2013, there has been an increase in VC investment in Japan, rising from US\$ 0.8 bn in 2013 to US\$ 2.5 bn in 2017⁶⁹. Compared to the number of unicorns in the U.S., which is nearly 200⁷⁰, and several dozen in India and the UK, the number is quite small in Japan. But investment in deep-tech start-ups such as autonomous driving, robotics etc. is one the rise. Japanese universities have been playing a key role as incubation centres for advanced technologies and many of the deep-tech start-ups originate in the universities, and typically collaborate with the large Japanese corporations. Such collaboration is mutually beneficial as the corporations are able to leverage innovations beyond their mainstream businesses while the start-ups are able to leverage the knowledge and expertise of the corporations for commercializing their products and services. Another important development is the introduction of start-up visas for specific regions to promote the creation of high technology zones. These include municipalities such as Hokkaido, Osaka City, and several Prefectures (Kyoto, Gifu, Ibaraki, Aichi, Mie, Oita, Fukuoka, and Kobe City).⁷¹

3.3.3 Bilateral Prospects

The opportunities for Japan and India to engage in the technology start-up space is reflected in several initiatives and trends. Prime among these is the setting up of a Japan India Start-up Hub in 2018. This is an online platform that was conceptualized and established in Bangalore to bring the two countries' start-up ecosystems (start-ups, investors, innovators and entrepreneurs) closer together, leverage their potential, and to promote joint innovation for mutual benefit. It is a joint effort of the Ministry of Commerce and Industry, GoI and the Ministry of Economy, Trade and Industry (METI) of Japan. The Start-up Hub facilitates market entry and information exchange by supporting collaborations between startups and investors from the two countries and by connecting Indian start-ups suited for the Japanese market with potential Japanese investors for a mutually beneficial collaboration. JETRO and NASSCOM have been facilitating the interface between Indian start-ups and Japanese investors. Start-up pitch sessions were organized in Bangalore and Japan in 2019, where Indian start-ups presented their ideas to the Japanese VCs for funding.

According to a report, 50 active Japanese start-up investors in India have funded nearly 105 Indian start-ups across more than 136 deals and Japanese VC investment of US \$10bn has been made in Indian start-ups. In 2019, Japan based Softbank made large sized investments in Indian tech-based start-ups such as PayTM, Ola Electric etc⁷². There is much interest among Japanese investors in India's unicorns, a segment where India ranks third in the world⁷³.

⁶⁹ <https://tech.eu/features/24647/the-rise-of-deep-tech-startups-in-japan-and-why-european-companies-should-take-note/>

⁷⁰ Hurun Global Unicorn List, 2019

⁷¹ See,

https://www.meti.go.jp/english/policy/economy/startup_nbp/startup_visa.html#:~:text=What%20is%20the%20%E2%80%9CStartup%20Visa,category%20of%20%E2%80%9Cbusiness%20manager%E2%80%9D.&text=When%20you%20take%20advantage%20of,before%20the%20requirements%20are%20met

⁷² Japanese Investors in India Report 2019, Datalabs by Inc42

⁷³ Hurun Global Unicorn List, 2019

Another collaborative initiative between the Confederation of Indian Industries (CII) and the Advanced Telecommunications Research Institute International (ATR) (funded by the Japanese Ministry of Education, Culture, Sports, Science and Technology) is a program to improve the start-up ecosystem in India. ATR and SeekersBase Japan along with NASSCOM, plan to raise USD 100 million to invest in 20 promising nascent-stage start-ups in India. One of the success stories includes Niramai Health Analytix, a health tech start-up that was established in 2016 in India. This start-up has developed software for screening breast cancer using machine intelligence, that is radiation free and non-invasive. It has secured US\$ 6 mn in funding from Japanese VC firms Dream Incubator and Beenext, to aid its expansion in the Japanese market⁷⁴.

In 2019, India and Japan decided to launch a US\$ 187 mn fund of funds called The Indo-Japan Emerging Technology & Innovation Fund⁷⁵. This fund aims to strengthen Indo-Japan partnership in the digital space through investments in Indian technology start-ups in the domains of fintech, healthcare, AI, IoT, education, and automation, among others. This fund aims to work on technologies which leverage each other's advantages, namely bringing together India's expertise in software with Japan's expertise in hardware in emerging technologies like AI and IoT, thus benefiting both nations.

⁷⁴ <https://yourstory.com/2019/02/ai-healthcare-startup-niramai-funding>

⁷⁵ https://www.indembassy-tokyo.gov.in/pdf/Newsletter_June_2019_Issue_6_English_July08.pdf

Box 2: Sagri Co. Ltd.- Startup in Microfinance for farmers⁷⁶

Sagri Co., Ltd. is the first Japanese start-up to enter the Indian market with the support of the Japan India Startup Hub. It set up its subsidiary, Sagri Bengaluru Pvt. Ltd. in Bengaluru in September 2019. The company provides technological solutions to Japanese farmers. Till date, the company has helped around 200 Indian farmers access microfinance through its innovative model.

Interview excerpts

a) Services offered by the company to Indian farmers

- The company has so far raised more than Rs. 2 crores from Japan for its India operation. It helps Indian farmers by improving their access to microfinance. It lends directly from its books. In future, it plans to partner with other financial institutions to lend through its online platform for reaching out to as many farmers as possible. It will lend through its "Sagri Finance Platform" and is also open to others to use the platform to lend to farmers.
- Sagri, the parent organization of Sagri Bengaluru Pvt Ltd, also provides pre-harvest and post-harvest technology solutions to farmers in Japan. Currently, it is checking whether these solutions will work in Indian agriculture conditions as the agro-climatic pattern in India is completely different from that in Japan.

b) How it helps farmers access microfinance

- So far, Sagri Bengaluru Pvt Ltd has disbursed loans to 200 farmers across Jaipur, Manipur and Karnataka. In order to reach these farmers, it has tied up with agri-value chain companies such as Freshokartz in Jaipur, Freshiesfresh in Manipur and EasyKrishi in Bengaluru to enhance micro credit delivery to farmers. These companies connect farmers and consumers (including enterprises like food processing companies) as they have collection centres, expertise in the agricultural supply chain and a ground level understanding of the farmers. Sagri has also tied up with farmer producer organization NAFPO in Delhi to reach out to farmers. Farmers repay its loans through these partner organizations.
- The company is trying to solve two main problems faced by farmers-credit creation and repayment of loans. To deal with these problems, it is trying to leverage the working methodologies of microfinance and its Farmer Credit Scoring techniques powered by technologies such as satellite imagery, soil sampling and testing, along with additional data on weather, climate, etc. and the credit history of the farmers and their families.

c) Future business growth plans in India

- The company plans to expand beyond the three states of Karnataka, Manipur, Rajasthan where it is currently based to launch operations all over India. It is looking for partners that are working closely with farmers at the ground level, with other startups and farmer groups.

Source: MVRDC, World Trade Centre Mumbai Newsletter, May 5, 2020

Note: Extracted from an interview given by the Chief Strategy Officer, Sagri Bengaluru Pvt. Ltd. to MVRDC, World Trade Centre, Mumbai

⁷⁶ See, <https://sagri.co/sagri-finance/>

3.4 Engineering Services

The global market for engineering services in 2019 was valued at US\$ 316 billion. It is expected to grow at a CAGR of 29 per cent from 2020-2027⁷⁷. The Asia-Pacific region features importantly in this market as several countries in this region are hubs for automotive, electronic, and construction engineering and technologies. This is a sector where India and Japan have complementary strengths and potential for engagement through trade, investment, and R&D collaborations.

The engineering services sector is growing rapidly in India. The two main segments in the Indian market are automotive, hi-tech services such as telecom, consumer electronics and industrial controls, with aerospace and defence also becoming more important in recent years. India's presence in this sector is based on an outsourcing delivery model, mainly catering to developed markets in the West. India is yet to tap the newer geographies in the Asia Pacific, including Japan.

India's strengths in this sector are cost, capacity and capability due to its large pool of low-cost and technically skilled labour force in STEM fields, its competitive IT services sector, and supporting policies and other initiatives. For instance, the 'Make in India' program which focuses on making India a global manufacturing and R&D hub provides opportunities for the Indian engineering services sector. India's expertise in the IT services sector along with widespread internet penetration have allowed it to adopt upcoming technologies such as AI, robotics, and virtual reality, at a rapid pace. This has enabled the engineering services sector to climb up the value chain and move towards more complex services. The sector has also benefited from increased FDI in the infrastructure, automotive and auto components sectors in India.

One of the most promising areas of complementarity between India and Japan is in the automotive engineering services market. Globally, the sector is expected to grow to US\$ 384.6 billion in 2027 from US\$ 153.1 billion in 2019, registering a CAGR of 12.2 percent⁷⁸. Japan is the largest player in the global automotive engineering services market. India, on the other hand, provides a competitive market to which such services can be outsourced on a large scale. Japanese firms are interested in outsourcing engineering services to Indian vendors to help them in customizing the products they offer as well as in innovating new products to suit the needs of the Indian market. There has been an increase in M&As in India's engineering services sector with Japanese firms acquiring Indian counterparts. For instance, the Solize Group headquartered in Japan acquired the CSM group in India, which primarily provides engineering services to the automotive and aerospace sectors. Another important area of synergy is infrastructure related engineering services such as in transport and logistics. There is considerable investment by Japan in such projects (metro rail projects, Mumbai-Ahmedabad bullet train, the Delhi-Mumbai Industrial Corridor). Given the huge infrastructure funding needs in India and the big push by the Japanese government for overseas investments and to create new markets, there is much scope for mutual benefit.

⁷⁷ Global Engineering Services Outsourcing Market Size Report 2020, Grand View Research

⁷⁸ Automotive Engineering Services Market Report, 2019, Markets and Markets

3.5 Taking stock of prospects under the CEPA

The preceding overview of four selected services in India and Japan highlights the many sources of complementarity. Three basic complementarities emerge. The first relates to India's need for investments and technology and Japan's ability to provide financial and intellectual capital. The second relates to Japan's need for talented manpower in many services and India's ability to meet that requirement. The third is the synergy between Japan's hardware expertise and India's software expertise, and the possibilities to leverage India's IT services strengths to exploit emerging opportunities in a variety of other IT-based services and manufacturing processes.

We next examine the extent to which the existing commitments taken by India and Japan under the Comprehensive Economic Partnership Agreement (IJ CEPA) address these areas and modes of mutual interest and complementarity.⁷⁹ Table 11 summarizes the sectoral coverage of the commitments made by India and selected partner countries, under India's bilateral agreements and how this compares with those made under the GATS, while Table 12 presents the coverage of subsectors within scheduled services.⁸⁰

An examination of the sectoral coverage of commitments shows that both India and its partners have either bound the status quo or have taken GATS plus commitments in terms of the number of services sectors and subsectors scheduled. Some schedules go beyond the offers made in the Doha round request-offer process.

⁷⁹ See Appendix A for a summary of the IJ-CEPA.

⁸⁰ Under the GATS, countries have flexibility to table service sectors (of the 12 broad services covered by the GATS) they wish to table for negotiations. This is called scheduling a sector. Once a sector is scheduled, they also have the flexibility to commit or not in subsectors and activities (160+ total across the 12 services) that are covered by a sector. Thus, the coverage of services and sub-sectoral coverage within a scheduled sector is left to the discretion of member countries. The same approach has been followed in India's bilaterals with Singapore, Japan and Korea.

Table 11: Sectoral coverage of commitments by India and selected partners under various FTAs

SERVICE SECTOR/ AGREEMENT	GATS				INDIA- KOREA		INDIA- JAPAN		INDIA- SINGAPORE	
	India	Korea	Japan	Singapore	India	Korea	India	Japan	India	Singapore
Business Services	√	√	√	√	√	√	√	√	√	√
Communication Services	√	√	√	√	√	√	√	√	√	√
Construction and Related Engineering Services	√	√	√		√	√	√	√	√	√
Distribution Services		√	√		√	√	√	√	√	√
Educational Services			√		√	√	√	√		√
Environmental Services		√	√		√	√	√	√		√
Financial Services	√	√	√	√	√	√	√	√	√	√
Health Related and Social Services	√		√		√		√	√	√	√
Tourism and Travel Related Services	√	√	√	√	√	√	√	√	√	√
Recreational Cultural and Sporting Services			√	√	√	√	√	√	√	√
Transport Services		√	√	√	√	√	√	√	√	√
Other Services Not Included Elsewhere										√

Source: Authors' construction based on schedules of services commitments under selected FTAs and Chanda (2014)

India committed only six sectors under the GATS, but it committed eight sectors in the India-Singapore CECA and eleven sectors each in the India-Japan and the India-Korea agreements. While partner countries such as Singapore, Korea and Japan have committed six, eight and eleven sectors respectively under the GATS, they have committed twelve, ten and eleven sectors, respectively in their FTAs with India. Thus, both sides have increased the sectoral scope of their services commitments.

Table 12 highlights that within the scheduled services, the number of subsectors/activities committed has also increased for both India and Japan. This is particularly so in business and communication services and to a lesser extent in transport services in case of Japan, and in business, transport and construction and engineering services and to a lesser extent in financial services in case of India. Japan, has however, committed fewer subsectors in financial services in its CEPA with India, compared to that under the GATS.

Table 12: No. of Sectors Committed within each Sector

SERVICE SECTOR/ AGREEMENT	GATS				INDIA-KOREA		INDIA-JAPAN		INDIA-SINGAPORE	
	India	Korea	Japan	Singapore	India	Korea	India	Japan	India	Singapore
Business Services	8	34	36	21	33	50	32	61	39	55
Communication Services	11	12	11	7	16	19	15	21	9	12
Construction and Related Engineering Services	1	7	5	1	1	1	5	6	5	8
Distribution Services		4	4		2	4	4	8	2	11
Educational Services			4		1	2	1	5	0	4
Environmental Services		4	7		2	4	2	7	0	3
Financial Services	10	15	9	17	17	12	14	2	12	17
Health Related and Social Services	1		1		1	0	1	1	1	7
Tourism and Travel Related Services	2	3	4	4	3	3	3	3	2	7
Recreational Cultural and Sporting Services			4	1	2	2	2	4	3	8
Transport Services		15	17	3	11	21	11	23	9	31
Other Services Not Included Elsewhere					0	0	0	0	0	3
Total	33	94	102	54	89	118	90	141	82	166

Source: Authors' construction based on schedules of services commitments under selected FTAs and Chanda (2014)

With respect to the four services under focus in this study, the CEPA commitments show increased coverage of these sectors. Both countries have not only scheduled these services but have significantly expanded the number of activities committed within them.

Beyond the scope of commitments, it is also important to examine the content of these commitments so as to get a better understanding of how much liberalization has actually been committed under the agreement by the two countries and how areas of sensitivity have been safeguarded.⁸¹ Table 13 provides the actual commitments made by India and Japan in selected services, for market access and for national treatment, in each of the four modes of supply. It also captures the gist of the limitations that have been inscribed where partial commitments have been made.

⁸¹ As per the commitment modalities, in the sectors and subsectors that are scheduled, countries make commitments on market access and national treatment for each of the four modes of supply (8 commitments per activity/subsector). There are three kinds of commitments they can choose to make—none, partial and unbound. None refers to commitments with no limitations when full market access has been permitted. Partial commitments are when limitations have been included and only partial market access has been provided subject to conditions. Unbound refers to the case of no commitments. Thus, countries have the discretion to commit in any of these forms within the sectors they have scheduled for commitments.

Table 13: Commitments in India-Japan CEPA in selected sectors

Sector	Mode	India's Commitments: Limitations on		Japan's Commitments: Limitations on	
		MA	NT	MA	NT
Education: Higher Education (Japan has committed all education subsectors, where Primary & Secondary Education are committed limitedly)	M1	P: Service providers would be s.t. regulations as applicable to domestic providers in the country of origin.	N	N	N
	M2	N	N	N	N
	M3	P: Fees to be charged can be fixed by an appropriate authority & that such fees do not lead to charging capitation fees/profitteering & s. t. further to such regulations, already in place/ to be prescribed by the appropriate regulatory authority.	N	N	N
	M4	U#	U#	N	N
Computer & Related	M1	N	N	N	N
	M2	N	N	N	N
	M3	N	N	N	N
	M4	U#	U#	N	N
Construction & Related Engineering	M1	N	N	Only Other (UN CPC 511, 515, 518) committed with No restrictions & mining more restricted	Only Other (UN CPC 511, 515, 518) committed with No restrictions & mining more restricted
	M2	N	N		
	M3	N	N		
	M4	U#	U#		
Health Related: Hospital	M1	P: Only for provision of services on provider-to-provider basis such that the transaction is between two established medical institutions, covering the areas of second opinion to help in diagnosis of cases or in the field of research.	N	U*	U*
	M2	N	N	N	N

	M3	P: Only through incorporation with a foreign equity ceiling of 74% & s. t. latest technology for treatment will be brought in. Publicly funded services may be available only to Indian citizens or may be supplied at differential prices to persons other than Indian citizens.	N	U except there is no limitation on participation of foreign capital	U except there is no limitation on participation of foreign capital
	M4	U# But None for charitable purposes.	U#	U	N
Financial: Insurance & Insurance Related	M1	U for Life, P for other subsectors, N for auxiliary services	U, N only for auxiliary	P	N
	M2	U except reinsurance, intermediation	U, N only for auxiliary	P	N
	M3	P: establishment would be through incorporation with foreign equity not exceeding 26%, 51% for auxiliary services	N for Life, U for others, P for Non-Life: establishment would be through incorporation with foreign equity not exceeding 26%	N	N
	M4	U#	U#	U	U
Financial: Banking & Other	M1	U	U	P: Commercial presence is required for discretionary investment management services.	N
	M2	U	U	N	N
	M3	P, U for money broking, N for Provision & transfer of financial information, financial data processing & related software by suppliers of other financial services	P, N for asset management ; consulting; Provision & transfer of financial information, financial data processing & related software by suppliers of other financial services	N	P: Deposit insurance system does not cover deposits taken by branches of foreign banks.
	M4	U#	U#	U	U

Source: Based on commitment schedules under the India-Japan CECA

Notations: P: partial, N: None, U: Unbound, U*: unbound due to technical constraints,

U#: Unbound except as indicated in the horizontal section

Notes: Subsectors include all subsectors committed. Where partial commitments are very detailed, they have not been mentioned

As is evident from Table 13, Japan has made more liberal commitments than India in general. Across modes, mode 4 remains unbound for both countries indicating that there is no liberalization with regard to movement of service providers. In mode 3, India has attached conditions to foreign participation through commercial presence. The important aspect to note is that for the sectors discussed earlier, the commitments made are for the most part liberal, with few or no limitations imposed. This implies that if the two countries take the bilateral opportunities forward through investment, movement of professionals and collaborations, in most services, the CEPA would not pose as a legal impediment to the process. There would be some limitations on FDI in certain services but in areas like computer and related services or construction and engineering services, the commitments are very liberal. Thus, obstructions to market access would not be legally tenable in such services, unless covered under the limitations inscribed in the schedules.

In the case of mode 4, the sectoral entries are unbound indicating that no sector-specific market access has been granted. However, Annex 7 of this agreement, titled “Specific Commitments for the Movement of Natural Persons” includes commitments to facilitate the temporary movement of service providers between the two countries based on transparent criteria & streamlined procedures. Both countries have agreed to grant temporary entry and provide a work permit to the spouse and dependents of "intra-corporate transferees, contractual service suppliers and independent professionals qualifying for temporary entry", conditional upon the dependents' compliance with the immigration measures as well as meeting the qualifications for employment. This Annex is applicable to IT professionals and engineers. It thus provides a basis for the two countries to further ease access for each other's service providers. As highlighted earlier, there already exist initiatives to ease visa requirements for selected professions, for mutual recognition and acceptance of qualifications and a totalization agreement.

Overall, the CEPA commitments indicate that there is a firm legal basis for expanding trade and investment relations in services across a range of sectors. But a core issue with the commitments is that they do not go beyond the autonomous regime. Hence, while they legally bind access and go beyond the GATS commitments, they do not offer additional market access or better conditions relative to the existing policy regime in both countries.

4. Survey Findings and Discussion

A central part of this study was a primary survey that was undertaken across the four selected services. The aim of the survey was to obtain primary evidence from companies and other stakeholders regarding the opportunities and challenges for enhancing trade, investment and collaboration between India and Japan in the concerned sectors and to understand their perspectives on the existing CEPA and its impact till date. The following discussion provides the details of this survey in terms of its methodology and approach and summarizes the main findings.

4.1 Survey Methodology and Approach

A survey was conducted by a survey agency during the April to August 2019 period. A total of 50 interviews were carried out across the four sectors under focus, namely, education, IT-ITeS, technology start-ups and engineering services. The interviews were conducted in person and over telephone, across several cities in India, namely, the National Capital Region, Mumbai, Pune, Neemrana and Bangalore which have a good representation of companies belonging to the four sectors under consideration.

In terms of coverage, twenty firms were interviewed in the IT-ITeS sector while ten firms were interviewed in each of the other three sectors. An additional 12 interviews were carried out by the investigators of this study, across the sectors. These interviews covered additional companies as well as other stakeholders, including government officials, industry associations and experts from investment and trade agencies. The distribution of the interviews across sectors and stakeholders is provided in Table 14.

Table 14: Distribution of respondents across sectors

	Number of Interviewees in total
Education Services	14
IT- IT enabled Services	22
Tech Start Ups	10
Engineering Services	11
Industry Bodies and Agencies from India and Japan	5

Source: Based on survey coverage

The selection of the companies for the interviews was based on secondary research by the survey agency to identify representative Indian and Japanese firms in each of the selected service sectors, which could provide perspectives on the prospects and challenges in bilateral engagement and operating in each other's market. Senior persons were interviewed in each of the companies so as to get this strategic perspective.

The interviews were based on semi-structured questionnaires, which had some common questions across sectors and some which were customized to meet the specificities of each sector. (Appendix A provides the questionnaires that were used for the survey). There were four parts to the questionnaire. The first part sought to get an overview of the company's operations and its engagement with India/Japan. The second part covered sector-specific opportunities and barriers. The third part attempted to assess the extent of awareness of the CEPA, its utilization as well as relevance for companies on both sides. The final part of the survey sought suggestions from the interviewees regarding specific issues that need to be addressed in future discussions and a review of the CEPA.

4.2 Results & Discussion

We present here the key findings on the current status, opportunities, barriers, and the role of the CEPA going forward for each of the chosen services sectors. This is followed by a summary of the cross-cutting issues in terms of the common opportunities and challenges as well as the top few issues and policy suggestions that emerge from the survey.

4.2.1 Education Services ⁸²

Most interviewees were from private establishments, with only one respondent being affiliated to an Indian Central University. The survey sample for education services consisted of eight Indian educational institutions and two Japanese establishments. All of the establishments covered in the sample offered degree certificate courses with only one also offering Undergraduate and Post-Graduate degrees. A Japanese language course was the most common course offered by all the establishments in our sample.

a) *Key Opportunities*

According to respondents, there are several factors that make Japan attractive as a partner for India in higher education services. The most significant factor noted by respondents was the high quality (and rankings) of Japan's educational institutions, followed by other factors such as incentives in the form of scholarships provided by the Japanese government to overseas students. However, factors such as Japan's global recognition as a R&D hub or its commonalities with India in the areas of cultural, religious (Buddhist) and heritage studies were not considered significant factors.

Respondents from Indian educational institutions had a very positive perception about the quality of Japanese education. They viewed the Japanese education system as historically and culturally rich and as being fundamentally different from that of other countries as it aims to inculcate a sense of responsibility, values and ethics, thus enabling holistic development. The Indian institutions interviewed also noted that Japanese educational institutions are very up to date in their use of technology and in pedagogical innovations, with curricula that include exchange programmes to provide students with international exposure. The Japanese curriculum was also seen to be innovative and practical, with sufficient focus on co-curricular activities, making the students independent and well-rounded. Some respondents also noted that for Indian students, education in Japan might be an economical option as compared to other developed economies. As Japan's education system is a balanced mix of traditional as well as modern teaching techniques, they are seen as having a unique edge in the education sector.

⁸² Trade in education services occurs through four modes of the General Agreement of Trade in Services (GATS). These include cross border supply of education services through online programs or courses offered by foreign universities that are taken up by students in other countries, consumption abroad wherein foreign students come to study in the universities of another country and native students go abroad to study, commercial presence which involves offshore campuses of foreign universities being set up in a country and mode 4 or movement of natural persons which represents the exchange of faculty across nations.

One of the higher education institutes in India which offers programmes in Japanese language studies, highlighted that the Japanese Government has taken more initiatives than the Indian government to strengthen bilateral ties in education services. For instance, the School invites Japanese visiting faculty for lectures, which are well-appreciated by the students. These exchanges are often facilitated by organizations that are funded by the Japanese Ministry of Foreign Affairs as a means to strengthen cultural ties between the two countries. Further, over time, Japanese government has increased the number of fellowships offered to students to attract talented youth since the country is facing a student shortage due to its declining youth population.

Another feature that makes bilateral engagement attractive with Japan is due to the growing demand for learning the Japanese language. As Japan is perceived to be a market leader in many segments, including electronics, computer hardware, semiconductors, automotive, and has set up businesses in India, there is demand for learning the Japanese language to avail of the employment opportunities these companies offer. An understanding of Japanese language and culture is seen as enabling the candidates to understand the Japanese business etiquette and ethics better and to avoid cultural faux pas when engaging with them. Furthermore, some respondents noted that with the demographic shift in Japan towards an ageing population, Japanese companies are increasingly looking for talented employees, creating opportunities for international students who are well versed in the Japanese language. This has led to increased demand for learning the Japanese language in India. With growing business relations between the two countries, an acquaintance with one another's education system and standards is seen as a welcome step. Also, with the growing population of Japanese expatriates in India given the rise in business transactions, there is also a need to offer education services to their dependents at the school level.

Respondents from Japanese establishments covered by the survey indicated that the most significant opportunities offered by India in education services sector included the availability of quality faculty and the growing private sector in the Indian education sector. Proficiency of the students and faculty in the English language and rankings of some Indian institutes were considered relatively less significant factors. Respondents did not find Indian government initiatives such as scholarships or India's competence in emerging domains such as Internet of Things (IoT) and Artificial Intelligence (AI) etc. as being important factors. It was also highlighted that some students also come to study English language in India due to the lower costs compared to studying in the US or UK. Some Japanese students also study Hindi in India and take Hindi as a major when studying in Japan due to their interest in the Indian culture, though this number is very limited at present.

b) Key Barriers

Several barriers were highlighted during the survey by Indian and Japanese respondents. The three barriers that were rated as most significant by Indian educational establishments included linguistic and cultural barriers, lack of awareness among students (lack of people to people connect) and lack of updated course content in the two countries.

Several respondents talked at length about the cultural and linguistic barriers that constrain bilateral engagement in education services. According to the Indian respondents, the history of Japan as a closed and conservative nation puts it at a disadvantage relative to major global players in the education sector. Problems of language and communication are a major deterrent between India and Japan in this sector. This is reflected in the very small number of students moving between Japan and India (though this is increasing slowly). Japanese students who visit India on student exchange have difficulties in communicating with administrative staff in the universities as well as with people outside the university campus due to linguistic barriers. Indian students refrain from going to Japan for higher studies as not many Universities in Japan offer programmes with English as the medium of instruction. Therefore, knowing Japanese becomes a prerequisite for taking up higher studies in Japan, making it a less attractive destination for Indian students seeking higher education overseas. This was highlighted as the single most important barrier for foreign students in choosing Japan for higher studies. Further, as some respondents pointed out, the success stories of Indian students gone to US in the past, motivate more Indian students to choose the US for higher studies, but such stories are lacking in the case of Japan. Most of the overseas students therefore turn to Japan only for pursuing Japanese studies. Japanese universities are addressing this shortcoming by starting summer courses and degree programmes in other disciplines in English at the undergraduate and postgraduate levels. This would not only help attract more foreign, including Indian students to Japanese universities in future, but could also benefit Japanese students in terms of communicating with their peers and preparing them for employment opportunities in other countries.

Some other factors that were cited as barriers included delays in regulatory approvals, problems with land acquisition, and dependency on local partners in case of setting up commercial presence in Japan, though these were seen to be moderately significant barriers, much less important than the cultural and linguistic differences. Other factors that were considered to be relatively less significant included immigration barriers, wide variability in the quality of the curriculum in Indian universities and non-recognition of degrees across countries. Restrictions on online delivery of education services or electronic sharing of online material were not considered important barriers. The misalignment of programmes between the two countries was also pointed out. For instance, the post-graduate programmes in Japan require four years of undergraduate studies for eligibility while many of the undergraduate courses in India, primarily in language studies and in non-engineering programmes, are of three years in duration, posing difficulties for Indian students in pursuing further studies in Japan.

On the part of Japanese establishments, the most significant trade barrier that was cited was the lack of infrastructural facilities in India, i.e., lack of international standards in Hostels, the Mess, Classrooms, and the lack of disability-friendly campuses. Some Japanese respondents also noted the restrictions in India with respect to acquisition of land as constraining Japanese universities from setting up their offices or campuses in India. Another factor cited was lack of awareness among Japanese students about the prospects for higher studies in India. While some Japanese students coming to India pursue engineering degrees especially IT, they are only aware of the high quality of institutions like the IITs but are not aware of other universities in India. Japanese educational institutions also noted problems that arise due to the lack of people-to-people connect and the non-recognition of degrees, which in turn limits student mobility between the two countries. Some Japanese respondents also cited the lack of marketing efforts by Japan in the higher education sector and restrictions on marketing and promotion in the Indian market, both of which have caused a general lack of awareness about Japanese higher education institutions among Indian students.

c) *Way Forward and Role of CEPA*

The majority of respondents (80 percent) were aware of the CEPA between India and Japan. The respondents agreed that such an agreement can help both countries understand each other's education sectors better. There was a general perception that such agreements can play a pivotal role in allowing the free movement of faculty across the two countries and in enabling private universities to make in-roads into each other's market. The CEPA is viewed as an opportunity to learn about the Japanese education system which is considered among the best in the world. Respondents were largely optimistic about leveraging the CEPA to facilitate exchange of ideas, pedagogical techniques and methods of learning between the two countries to promote bilateral trade in education services. Several suggestions were made in the context of the CEPA and also more generally to realize these opportunities.

The primary suggestion made by all respondents was to increase the visibility of Indian universities and educational institutions in Japan as it was felt that currently awareness about India is very limited in the Japanese market. Similarly, awareness of educational opportunities in Japan is limited among Indian students. As a result, the number of Indian students in Japanese universities is quite low in comparison with China and even Indonesia and Bangladesh. As Indian students are more exposed and oriented towards the English-speaking Western nations, a greater awareness campaign is needed by the Japanese institutions to attract Indian students. It was also mentioned that media can also play an important role in raising awareness and that the role of media needs to be carefully examined as at times it may also create negative stereotypes about the two countries.

There were suggestions regarding teaching the Japanese language in India's mainstream curriculum, especially in the lower grades. Very few schools in India offer Japanese language as a subject. The latter is often listed as a fourth language and hence is not opted for by students. Knowledge of Japanese, it was felt, would help improve ties between the two countries and also make the Indian youth more global in their orientation. It was felt that the CEPA should be leveraged to increase language training programs in Japanese as this would facilitate employment for Indian professionals across a variety of sectors in Japan. For instance, special training programmes in Japanese could be introduced for Indian healthcare workers, which would facilitate their movement to Japan for providing care to the elderly. Similarly, given the fact that large conglomerates in Japan – the 'keiretsus'⁸³, are conservative in nature and mostly use Japanese language as a medium of communication to carry out their business, being well-versed in Japanese language could help Indian businesses in penetrating the Japanese market.⁸⁴

In this regard, some participants mentioned that progress is being made to impart language training in Japanese. For instance, a few schools in India are promoting cultural interaction with Japanese schools as a part of their curriculum. Some IT firms in India are already associating with the Japanese Embassy in India to train their employees in Japanese. Certain Japanese foundations have been supporting Japanese language centres in Indian universities in creating awareness about the language as well as promoting people to people connect.

⁸³ Keiretsu is a form of business organization unique to Japan, where a number of organisations are linked together in a network by having stakes in one another and have a close business relationship.

⁸⁴ Respondents noted that China fares better than India as it has more linguistic and cultural affinity with Japan. It has the third largest number of Japanese-language educational establishments, after Korea and Indonesia, with 2115 such institutions compared to only 184 in India. China has the largest number of Japanese learners in the world at 953,283 persons compared to India which ranks 12th with only 24,011 learners (Japan Foundation, 2015).

As the high cost of education in Japan compared to that in India, as well as visa issues are seen as impeding bilateral trade in education services, respondents suggested that the CEPA could focus more on such issues to remove these barriers for mutual benefit. For instance, it was noted that technology-oriented programs in which Japan specializes and excels and has a curriculum that is at par with that of global universities can be very expensive for Indian students. Without some scholarships being extended by the two governments, it is difficult for Indian students to pursue these programs in Japan. It was specifically suggested that future reviews of the CEPA should address the introduction of country specific scholarships by the governments to facilitate bilateral student exchange. It is to be noted, however, that the cost of education in Japan is less than that in other major destination markets for Indian students, such as the US and the UK.⁸⁵ This has often been cited as a reason for Indian students to explore Japan as a destination country for further studies.⁸⁶ Moreover, loans are not available for foreign students.⁸⁷

In addition to addressing the cost of education, it was also suggested that the governments in both countries should take efforts to encourage and incentivize Indian youth to attain education in Japan by offering recruitment to competent students and leverage the linkages of Japanese universities with industry to motivate Indian students to take up higher studies, internships and future employment in Japan. It was also suggested that government assistance is needed to improve the infrastructure and capacity of institutes and universities to facilitate student exchange programmes between the two countries. Such exchange programmes would in turn benefit universities on both sides by contributing to their educational and scientific accomplishments.

Respondents also highlighted the need for the government to organize workshops and seminars to educate the institutes as well as prospective students about the CEPA and its provisions for the education sector. They also suggested the role the two governments could play in promoting exchange of reputed faculty between the countries on a regular basis, though respondents also mentioned that due to the shortage of faculty at Indian universities, it is often difficult to engage in faculty exchange. In addition to exchange programmes, it was also suggested that the two governments could provide internships to each other's students so as to allow them to explore the business environment and system. Further, Japanese scholars are deterred by the low salaries in India and thus have low motivation to visit India to teach.

Another set of suggestions concerned the need to align the curricula for standard degrees in the two countries. A lack of such synchronization creates difficulties for students in understanding the requirements for the degrees they wish to pursue and deters pursuit of further studies in each other's market. The discussions also revealed the need to address non-transparency in the admission processes of the institutes for foreign students. It was further noted that Indian students face an issue with recognition of their language proficiency certification, even after clearing the JLPT (Japanese Language Proficiency Test) exam when they seek admissions for higher studies in Japanese universities.

⁸⁵ https://read.oecd-ilibrary.org/education/education-at-a-glance-2017_eag-2017-en#page221

⁸⁶ But Japan remains less attractive for Indian students due to linguistic and cultural reasons.

⁸⁷ It is also difficult for international students with non-resident status to secure loans to pursue studies in Japan.

<http://hanko-seal.com/archives/4847#:~:text=There%20are%20dozens%20of%20consumer,students%20with%20permanent%20resident%20status.&text=No%20bank%20accepts%20applications%20from%20foreign%20students>

Respondents also highlighted the many opportunities in the education services sector which can be exploited by India and Japan for mutual gain. For instance, it was mentioned that India and Japan have synergies to introduce technology into pedagogical tools so as to improve the learning process and outcomes through means such as: e-learning, interactive learning, etc. Further, given the respective strengths of both countries, technology could also be included as part of the curriculum, especially in higher degree courses. It was also felt that collaborations on the research front can help the countries cut down the costs, target common issues and share each other's expertise in different domains. Universities from the two countries can collaborate in offering dual degree programmes or developing common curriculum keeping in mind the needs of the industry to prevent skill mismatch, so as to provide the students with employment opportunities in both countries.

Overall, respondents had several forward-looking suggestions about ways to enhance relations in education services. The two main suggestions pertained to raising awareness and lowering the cost of education. The general view is that both governments should be more pro-active if the existing opportunities are to be exploited. There is, however, also some skepticism about the implementation and monitoring of the commitments made under the CEPA.

4.2.2 IT – ITeS Sector

The survey covered 20 firms in the IT-ITeS sector. Among these, three firms were headquartered in Japan but had a commercial presence in India while the remainder were Indian firms and MNCs (based in India) with a presence in the Japanese market or plans to enter the market. The broad industry verticals in which these firms have presence included IT, healthcare, banking, telecom, insurance, legal services, accounting services and auditing. Their operations included IT services, IT consulting, automation solutions, web designing, data processing, digital marketing, business technology solutions, integrated product engineering solutions, and IT solutions for hardware etc. among others. All three modes (modes 1, 3, 4) of trade were found to be equally significant among the firms surveyed.

a) *Key Opportunities*

The survey highlighted the very positive outlook across all respondents regarding the bilateral opportunities in this sector. Sixty five percent of the non-Japanese firms ranked Japan among the top 10 markets in terms of business opportunities. In their view, the most significant opportunity offered by the Japanese market is the technological complementarity between the two countries in terms of India's expertise in software skills and Japan's expertise in hardware, technology and R&D. Other factors that are conducive to bilateral engagement include Japan's global reputation in terms of R&D capabilities; the demographic complementarity between India and Japan and the need for India to diversify its exports to other markets such as in the Asia-Pacific region. One of the respondents from an Indian IT firm highlighted that because of the unique nature of the Japanese market, that company has created a niche for itself by focusing on services that cater only to Japan, with 90 per cent of its revenues coming from Japan. Factors such as size of the Japanese IT sector and incentives given by the Japanese government were, however, were not perceived to be that significant.

According to Japanese firms, one of the main attractions of the Indian market is the hardware-software synergy between the two countries. They noted that Japanese manufacturing firms are increasingly realizing the importance of integrating updated software services in manufacturing to be globally competitive. Hence, there is growing interest in collaborating more actively with India so as to be at par with their global competitors as far as the integration of frontier IT solutions is concerned.

Across all Japanese and MNC respondents, the Indian market was perceived to be very attractive due to the high quality and reliability of services provided by Indian IT professionals and firms. The other significant opportunities include incentives offered by the Indian Government, India's expanding market and the relative maturity of its domestic IT market compared to that in Japan, and the efficiency, productivity and capability of India's IT workforce. Japanese firms noted that India's large domestic market, its globally reputed IT-ITeS market and its cost-effective and talented workforce makes it an attractive business destination for Japan. In particular, respondents highlighted factors such as mandatory trainings in workplace code of conduct which enhances the efficiency of Indian IT professionals as well as the latter's in-depth domain knowledge of technical languages such as PHP, Java etc. which enables them to prioritize work, understand the client's needs and provide quick and hassle-free delivery of services to international clients. The respondents also noted the innovative and value-for-money services which set apart Indian IT professionals from those of other countries, the high standard of the services provided by Indian IT firms, and the fact that Indian IT firms are up to date with new technologies such as AI, IoT and Machine learning and provide their employees with multiple platforms to upgrade their skills.

Overall, it was evident that Japanese clients have a very good opinion of Indian IT firms and professionals. In their view, Indian IT firms are capable of providing high-end technical support for their clients. They perceive Indian IT professionals to be reliable and dedicated to their work with excellent communication skills and ability to provide services remotely. As pointed out by one respondent, the latter skills are of utmost importance in a sector where Mode 1 (or cross border supply) is usually the most common mode of trade.

b) Key Barriers

Bilateral engagement in IT-ITeS is, however, subject to several challenges. Non-Japanese respondents identified three significant barriers. These include linguistic differences, growing competition from China and other South East Asian nations and the unique Japanese industrial organization system of 'Keiretsu' which makes it difficult to enter the Japanese market. Other factors such as Data Protection and IPR issues, investment barriers in Japan, and differences in organizational culture and ways of doing business between the two countries were perceived to be moderately significant barriers. Labor Regulations in terms of Mutual Recognition, Accreditation and licensing issues, labour market and economic needs test related requirements, labour laws and Immigration issues were not perceived as significant barriers to bilateral trade in this sector.

Indian firms and MNCs highlighted language as the most significant barrier when working with Japanese clients and in entering the Japanese market.⁸⁸ It was noted that the few US based firms that have been successful in Japan have overcome this challenge by hiring more Japanese professionals. Moreover, Indian professionals who live and work in Japan, face challenges relating to language and culture. Organizational culture was also cited as a challenge. The CEO of a leading IT firm in India which withdrew from the Japanese market a few years back noted that the slow and hierarchic nature of the decision-making process in Japanese firms relative to that in other countries, makes it more difficult to do business with Japanese compared to Western clients. While collaboration and strategic tie-ups with local partners were seen as a good way to penetrate the Japanese market (as the examples of tie-ups by Indian IT majors cited earlier highlight), respondents noted the challenges in integrating with Japanese companies. Some Indian IT firms which are interested in entering the Japanese market also cited the difficulty and high cost associated with getting a commercial space in Japan and thus in accessing the Japanese market through mode 3, or commercial presence. In their view, future CEPA discussions could consider providing some rebates which could help Indian firms to enter the Japanese market.

Beyond these issues, other factors such as labour laws and taxation did not emerge as major barriers according to Indian and MNC respondents, their main contention being that such issues only arise after the firm secures business in Japan, which in itself is the more difficult step. Cross border mobility of professionals, though not cited as a major hurdle, is nevertheless a challenge for some companies. An e-learning app developer firm from India with a large client base in Japan expressed the need to have easier visa norms to facilitate cross-border movement of service providers between the two countries as frequent movement of professionals to the client's location is required in this sector. More generally, Japan's economic stagnation was seen as adversely affecting the opportunities for expanding business operations in Japan.

Although Indian IT firms were by and large perceived to be very technically competent, one large Indian IT firm cited the challenge of slow adoption of new technologies such as cloud computing, artificial intelligence, IoT, blockchain etc. by Indian IT firms. This potentially poses a constraint to collaboration with Japanese firms as the latter are more technically updated. Hence, according to this respondent, the Indian IT industry needs to upgrade itself more quickly to leverage collaboration possibilities with Japanese firms. This requires Indian IT firms to adopt and train their professionals in new skills such as big data, robotics, etc. and moving into jobs that go beyond replication of processes and towards implementation of new solutions, so as to sustain their competitive edge in future.

⁸⁸ Language was seen to be a particularly important barrier in the case of IT-ITeS as this sector requires repeated communication between service providers and certain technicalities may get lost in translation which could adversely affect service delivery.

The Japanese firms that were surveyed highlighted language barriers to be the most significant barrier to trade with India in the IT-ITeS sector. In addition, they also cited several other challenges to operating in India, including the poor execution of laws and regulations in India, the organizational systems and ways of doing business in India which are very different from those practiced in Japan, immigration related challenges, infrastructural constraints (especially, erratic power supply, insufficient bandwidth, and poor network connectivity), and lack of data protection norms in India. For instance, some firms noted that the lack of data protection and privacy laws in India is causing India to lose business from many developed countries which have enforced these standards. As India's data security regime is evolving and India has not signed the Osaka Track, data sharing is an area of concern for Japanese companies. Piracy and copyright violations were also cited as concerns.

The Japanese respondents were, however, appreciative of recent ease of doing business related initiatives undertaken by the Indian government (e.g., GST and the Insolvency and Bankruptcy Code) as steps in the right direction, though they noted the generally poor implementation of rules and regulations in India and the gap between policy and practice. Japanese respondents also cited India's over-dependence on the Western markets in the IT industry and the need to diversify the sector's geographic orientation. Apart from language, organizational culture, infrastructure and data protection related challenges, other factors such as FDI regulations, labour laws and the availability of skilled labour were not perceived by Japanese respondents to be major barriers to doing business in India.

c) Way Forward and Role of CEPA

Eighty percent of the firms surveyed were aware of the India-Japan CEPA. In their view, the agreement can facilitate investment from Japan into the Indian IT sector, enable Indian firms to do business with Japanese firms which are global leaders in technology, and help Indian firms to provide value added services and customized solutions to small, medium and large-scale firms in Japan. There is a strong view that the CEPA can be used to leverage the complementary hardware and software skills of Japan and India, respectively, particularly given the use of advanced software with hardware. Better implementation of the CEPA in the IT-ITeS sector is seen as benefiting both sides through lower costs, enabling technological innovation and ease of doing business.

Respondents highlighted several barriers and issues which could be addressed in the CEPA discussions and future review of the agreement. One such issue relates to easing restrictions on the cross-border movement of professionals between the two countries through more liberal commitments in mode 4. This, according to the respondents, would enable firms on both sides to better utilize technically qualified personnel. There was a mixed view about how much the CEPA has eased the norms for obtaining Japanese visas for Indians. All firms stressed the need to introduce more business-friendly visa rules that can help in the movement of professionals across countries, through the agreement.

Another general point raised by all respondents was the need to raise awareness of the CEPA and to improve its effectiveness. Some suggestions made in this regard included the need to organize events to make the stakeholders aware of the opportunities offered by the other country, better information on investments opportunities and the way to navigate each other's markets, and the establishment of special windows to facilitate bilateral investment. Indian IT companies pointed out that they face tough competition in Japan in the healthcare and retail IT services segments and that an India-specific desk in Japan would make it easier for them to enter the Japanese market. Respondents also suggested that the CEPA discussions be used to address barriers relating to language and culture so as to provide more employment opportunities to Indian and Japanese professionals in each other's markets.

Overall, the prevailing view was that the CEPA has much to offer but it has not been utilized well by either government. In future reviews, the agreement should be revised keeping in mind the needs of the service sector, including the specific concerns of the IT industry. It was felt that these agreements have generally focused more on goods and the service sector's interests are not given adequate attention. Hence, it was suggested that a dedicated team should delve into the opportunities and interests of the various services, including the IT sector and incorporate these issues into future discussions. If this is done, then according to the respondents, the CEPA can play an important role in the growth of this industry in both countries.

4.3 Technology Start – Ups

All the firms that were interviewed in this sector, were set up post 2000. Eighty percent of them were aware of the India-Japan CEPA. The verticals in which they are operating include, mobile app development, web development, IT solutions, IT service and translation, e-commerce, mobile marketing and mobile analytics. The most common mode for trade for the respondents was Mode 4, followed by Mode 1 and Mode 3. For around 60 per cent of these firms, their operations in the Japanese market began only in the past five years. However, 70 per cent of these firms listed Japan among the top 3 markets for their business.

a) *Key Opportunities*

The discussions indicated that the size of the Japanese IT services market is what makes the Japanese market attractive to Indian start-ups. All respondents agreed that the demographic complementarity between India and Japan, the need for Indian providers to diversify into new Asia-Pacific markets, the currently low levels of penetration of digitalization in most sectors in Japan, and the availability of special incentives that are being offered by the Japanese government to support innovation for revitalizing Japan's economy are conducive to bilateral engagement in this segment. Other factors that were cited, though perceived to be relatively less significant, included technological complementarity (hardware and software) and the possibilities for knowledge transfer given Japan's global reputation in R&D.

According to the respondents, as India is at a relatively nascent stage in the online business segment, it offers immense potential for tech start-ups. India provides a labour force which is innovative, talented and cost-effective. With high growth and rising incomes in India, firms highlighted the many unexploited opportunities in the e-commerce space. They mentioned that the availability of skilled IT professionals in India not only enables good IT services delivery but also good after sales service for tech start-ups. Indian IT professionals are seen to have a good understanding of problems and a problem- solving oriented approach. Several respondents also highlighted the diversity of the Indian market as another positive attribute in that it provides start-ups with an opportunity to pitch their product or service to different customer segments and offers investors opportunities to invest in a range of areas, including consumer goods, pharmaceuticals, infrastructure, energy, agriculture, etc. Given Japan's ageing population and thus a declining domestic market, India with its young population and growing consumer market coupled with good IT skills and a growing start-up ecosystem, offers good opportunities to start-up investors from Japan. Respondents mentioned the important role JETRO has been playing in bringing together Indian start-ups and Japanese investors. Firms also highlighted opportunities in new areas such as block chain technology. One of the respondents revealed that they have recently signed a contract with a Japanese start-up to set up a block chain R&D center in Pune, India to hire and train block-chain developers in this innovative technology.

b) *Key Barriers*

Several challenges were highlighted by the survey. The most significant among these were linguistic barriers, followed by high investment costs (due to the exorbitant cost of real estate in Japan, requirements pertaining to local presence, and need for a local partner) and a stringent regulatory environment for start-ups. Eighty percent of the respondents considered the Japanese work culture in terms of its aversion to risk taking and the tendency to strive for perfection as a moderately significant barrier. As an example, one of the interviewees mentioned that often a beta version of a software is not released in Japan as it is considered a less than perfect product.

Another set of challenges that emerged from the survey related to knowhow and skills. It was mentioned that strict regulations as well inertia on the part of incumbents in Japan to adopt new technologies in sectors such as healthcare, adversely affect tech start-up opportunities for Indian companies in Japan. (It was, however, noted that there is a gradual push towards adopting health-tech start-ups given the rising demand for healthcare due to Japan's demographic structure, which will open up future possibilities for Indian tech start-ups in healthcare). Several Indian tech start-ups cited their lack of business knowledge regarding customer relationships and marketing strategies and the need for support in these areas if they are to enter the Japanese market. Some of the firms surveyed also mentioned the difficulties in finding skilled labour due to a wide mismatch between the curriculum in India and the skill sets needed for technology start-up jobs, particularly in sectors where technology keeps changing at a fast pace.

Some respondents also mentioned the lack of people-to-people communication between the two countries as causing a gap between solution providers and their clients. They pointed out the need for Indian start-ups to bridge this gap and to develop an in-depth understanding of the customers and their needs in markets such as Japan, which are culturally distinct. A similar perception exists regarding the Indian market which according to the respondents, also requires a good understanding of customer needs given its diversity in terms of culture, language, ethnicity and religion. Another key issue highlighted about the Indian start-up market was the price sensitivity of Indian customers who are unwilling to pay much for a product or service.

Indian start up founders mentioned the difficulties in finding suitable investors and raising funds in the Japanese market. Despite positive reviews received for a product, Japanese investors take a long time to invest in a new idea or technology. Therefore, in their view, government support is needed to set up a platform which updates the tech start-ups about the various schemes offered in various sectors.

Firms were also asked about the significance of other factors which pose a challenge to enhancing relations in the technology start-up space. Factors such as lack of transparency and long timelines for visa issuance, difficulties in getting visas for dependents, the absence of a data protection law in India, and labour and recognition related issues (such as Accreditation and licensing requirements, local employment conditions, and labour market test) also emerged as barriers, though they were not considered to be significant.

c) *Way Forward and Role of CEPA*

Views regarding the effectiveness and significance of the CEPA in facilitating bilateral relations in the technology start-up segment, were mixed. According to some respondents, while the agreement could help the manufacturing sector by helping firms to update their technology in collaboration with Japan, e-commerce firms in services would not stand to benefit from the CEPA in its current form. There were also concerns about the efficacy of its implementation as other trade agreements are not seen as helping Indian firms to gain much in partner country markets. However, some other respondents were optimistic about the CEPA. They considered the agreement as a gateway to the Japanese market. In their view, the CEPA can facilitate FDI from Japan to India, thus helping Indian tech startups expand their global footprints and enabling them to expand their product offerings and reach out to a wider range of consumers. Further, the CEPA is seen as helping the two countries exploit their business synergies, enhancing employment opportunities and enabling the transfer of innovative ideas and technologies to India. Respondents did not, however, provide any specific suggestions on policy initiatives or measures needed under the CEPA to promote bilateral opportunities in the technology startups segment. Most suggestions were general in nature and largely echoed those made in the case of IT-IT enabled services given the strong overlap in the nature of both these segments.

4.4 Engineering Services⁸⁹

The survey of firms in engineering services mostly covered Japanese MNCs located in India. These firms were involved in verticals like – automotive equipment, electrical equipment, industrial tools, power grids, power generation, robotics and motion, surface treatment, air conditioning and petrochemical refining. Their operations comprised of repairing automotive parts, air bags, seat belts etc.; surface coating; sales, R&D and warehousing for air-conditioners; manufacturing and sales of industrial and commercial motors. All the respondent firms ranked India among the top 10 markets for overseas business. Respondents highlighted that they are engaged in engineering services trade with India through commercial presence (Mode 3), movement of skilled professionals (Mode 4) and cross border supply (Mode 1) due to advancements in ICT. Most respondents were aware of the existence of the India-Japan CEPA. Nearly 90 percent of the surveyed Japanese engineering firms ranked India as one of the top 3 markets by the volume of overseas business.

⁸⁹ Japan-India trade in engineering services is present in corridor projects – Delhi Mumbai industrial corridor, SMART cities – primarily in the infrastructure sectors.

a) Key Opportunities

The discussions indicated that the single largest factor that makes India an attractive market for Japanese firms is its growing market. Coupled with this growth is the rising demand for solutions which requires a combination of engineering and IT services. India's IT skilled labour force provides the much-needed complement to Japan's prowess in the engineering sector. All the Japanese engineering services firms interviewed listed this complementarity as the most significant opportunity presented by India. Nearly 90 per cent of these firms agreed that the availability of low-cost, young, efficient and skilled professionals in India, is one of the most significant features of the Indian market. Respondents highlighted that while Japan specializes in automotive and electronics manufacturing, it does not have much exposure to the latest IT technology, and given that the future will be digital, Indian IT engineers can help them bridge this gap.

Most of the companies indicated that the quality of labor in architectural and engineering services in India is world-class. They noted that India offers a unique mix of a talented workforce coupled with low costs, which puts it at an advantage relative to other countries. In addition, the adoption of practices such as Quality Management and Industrial Management by the Indian workforce, enhances in efficiency in engineering services. One respondent mentioned that India's talent pool is well versed in distinguishing between quality and quantity, enabling smooth and efficient flow of the desired products.

Seventy five percent of the Japanese firms also attributed the attractiveness of the Indian market to the Indian government's thrust on infrastructure, its liberal FDI policies in this sector, and the incentives being provided by the Japanese government for overseas investments. For instance, infrastructure projects such as the Delhi-Mumbai Industrial Corridor, the Mumbai-Ahmedabad high speed rail, etc. were cited as providing opportunities for Japanese investment in Indian infrastructure projects. Respondents also highlighted the spinoffs from such investments in terms of the opportunities created for Indian firms to engage in related areas such as IT-ITeS and professional services. Some respondents also noted that Japanese engineering services firms can benefit from the demand for services from reputed companies such as Maruti Suzuki, Honda, Munjal Dowa, Tricolite which are already present in the Indian market. Such backward linkages with existing Japanese companies in the manufacturing sector, provide bilateral opportunities to both Indian and Japanese engineering services firms.

The non-Japanese companies based in India which are interested in engaging with the Japanese market cited India's skilled labour force and lack of same in Japan as one of the main drivers of bilateral engagement. This demographic complementarity as well as incentives by the Japanese Government to invest overseas and to diversify to new markets were considered to be moderately significant factors in enabling bilateral relations in engineering services.

b) *Key Barriers*

Within the engineering services the Japanese companies ranked cultural barriers and differences in the ways of doing business and language as highly significant barriers to bilateral relations in this sector. Immigration Policies such as long timelines, cumbersome processes and procedural requirements, difficulties in getting visas for dependents and multiple entry, lack of transparency in visa issuance; infrastructural issues in terms of erratic power supply, insufficient bandwidth, and poor network connectivity; and lack of domain expertise in potential employees were seen as moderately significant barriers by a majority of Japanese companies. Regulatory and institutional constraints in India were viewed as moderately significant barriers by these respondents. There was a lack of consensus regarding investment conditions (such as Local Content Requirements in government contracts or requirements pertaining to Commercial presence or dependence on local partners -JVs etc.). The latter were rated by some respondents as moderately significant and by others as highly significant barriers to trade. Dependence on a local partner was seen as important for addressing cultural and linguistic barriers. Views were similarly mixed in case of barriers such as complexity of labor regulations (MRA, Accreditation and licensing requirements, local employment, rigid labor laws) and lack of transparency in competitive bids for projects (public procurement).

One of the issues highlighted by a respondent who has worked with a Japanese firm was about attrition rates in India, in addition to problems with finding the right skill sets. The respondent noted that while Japanese companies are known for investing in their employees, the high attrition rate in India makes it difficult for them to incur training costs. Nevertheless, as Japanese employers recognize the quality of engineers from IITs, they regularly recruit students from these institutions, but attrition imposes high costs on them. Firms also mentioned challenges which arise due to uncertainties with government regulations, approvals and permits which often derail their planned milestones in India. One of the firms, also pointed out that infrastructural issues relating to electricity, road and transportation pose a challenge for Japanese firms looking to expand their business in India. Hence, in order to create a better ecosystem and attract investments from Japan to India, both physical and IT infrastructure have to be raised to global standards.

According to the non-Japanese companies in the sample, their main constraints to doing business in Japan relate to investment barriers (such as high cost of real estate in Japan, local content requirement norms in Japan or requirements pertaining to commercial presence or dependency on local partners -JVs, etc.) and inadequate availability of cost-effective and skilled labour. Other relatively less significant factors include language barriers and lack of transparency in competitive bids for projects (public procurement) and complexity of labour regulations. Issues pertaining to immigration were however, not considered very significant barriers. For engineering services (based in India) venturing into the Japanese market, access to credit was also cited as a key challenge.

c) *Way Forward and Role of CEPA*

All respondents were appreciative of the CEPA and perceived it to be of significance for improving bilateral relations in services. It was mentioned that the CEPA provides for lower tariffs on machinery imports from Japan, which in turn enables innovations in production techniques, a significant reduction in production costs, and opportunities for collaboration in engineering services. The interviewees noted that the CEPA can help India's engineering professionals to collaborate with Japanese companies and to technologically upgrade themselves, which would be beneficial to both countries. A cost-effective, skilled work force in the automotive industry can help lower production costs, to the benefit of both Indian and Japanese firms. The provisions for reduced tariffs and liberal market access for FDI under the CEPA, allows companies to set up easily in India and use the Indian work force efficiently. The CEPA is believed to have aided India in developing stronger trade relations Japan and using this to create a congenial business environment in India for MNCs from Japan. By promoting the operations of Japanese firms in India, the CEPA is seen as enhancing employment opportunities in India and Japan for Indian engineers.

It was, however, pointed out that the level of awareness about CEPA and its provisions is currently very limited in industry on both sides. There is also a lack of information and awareness among companies and other major stakeholders about each other's markets. Therefore, there need to be more efforts on the part of both the governments to reach out to industry through orientation sessions, training and seminars, to disseminate information about the CEPA and opportunities created by this agreement. Further, as many of these firms are involved in automotive-related engineering services, respondents also suggested the need to lower tariffs on auto parts to confer a price advantage to both the countries.

From a forward-looking perspective, many respondents highlighted the importance of diversifying the nature of engagement to include more SMEs. As most of the big Japanese companies have already made inroads in India, it was felt that the CEPA should be leveraged to motivate Japanese SMEs to explore the Indian market. Given rising incomes in India and the shrinking economy in Japan with its ageing population, Japanese SMEs would have an incentive to invest in India. Such investments are currently constrained by a lack of awareness amongst them about the Indian market, its tax system, laws and regulations, and how to do business in India. Future discussions on CEPA could address provisions specifically targeting SME engagement and investments by Japanese SMEs in India. This would require the industry bodies and relevant government ministries to engage with SMEs through seminars and workshops about the CEPA and for the governments to provide them with incentives to invest in India. Several Indian and Japanese respondents highlighted the need for three-way cooperation between industry, government and academia to increase collaboration in the SME segment.

4.5 Summarizing the Findings

Across the 4 sectors covered by the primary survey, several common areas of opportunity and concern emerged. Perspectives regarding the CEPA and what needs to be done to better leverage it in future, also seemed to be similar across all respondents, whether Indian or Japanese, whether private sector or government. Tables 15 to 18 summarize the survey findings on opportunities and barriers raised by respondents regarding the Japanese and Indian markets. These are rated as highly or moderately significant opportunities or barriers in the Japanese or Indian market from the perspective of the respondents and marked with a X if they are not seen to be a significant factor.

Table 15: Key opportunities offered by Japan
(as per non- Japanese firms/establishments)

	Large IT services Market	Demographic Complementarity ⁹⁰	Technological Complementarity ⁹¹	Global reputation in R&D	Diversification into new markets	Incentives by Japanese Government
Education	X	X	X	X	X	Highly significant
IT-ITeS	X	Highly significant	Highly significant	Highly significant	Highly significant	X
Tech Start Up	High	Moderately significant	X	Moderately significant	Highly significant	Moderately significant
Engineering	X	Moderately significant	X	X	Moderately significant	Moderately significant

Source: Based on primary survey

Table 16: Key opportunities offered by India
(as per Japanese firms/establishments)

	Incentives by Indian Government	Expertise in English Language	Low Cost of Labour-force	Quality Workforce (or Faculty)
Education	X	Moderately significant	X	Highly significant
IT-ITeS	Moderately significant	X	X	Highly significant
Engineering	Moderately significant	X	Highly significant	Highly significant

Source: Based on primary survey

⁹⁰ Ageing population in Japan v/s the growing working age population in India.

⁹¹ Due to Japanese expertise in high-tech manufacturing & Indian expertise in software skills.

Table 17: Key barriers affecting trade in services between India and Japan
(as per non-Japanese Firms/Establishments)

	Linguistic Barriers	Cultural Barrier/ Lack of people-to-people connect/Differences in ways of doing business	Lack of Data Protection Norms in India ⁹²	Investment Barriers in Japan ⁹³	Immigration Issues ⁹⁴	Labour Regulations ⁹⁵
Education	High	High	X	Moderate	X	X
IT-ITeS	High	Moderate	Moderate	Moderate	X	X
Tech Start Up	High	X	Moderate	High	X	X
Engineering	Moderate	X	X	High	X	X

Source: Based on primary survey

Table 18: Key Barriers affecting trade in services between India and Japan
(as per Japanese firms/establishments)

	Immigration Issues	Labor Regulations	Linguistic Barriers	Cultural Barriers	Investment Barriers in India	Lack of IPR and Data Protection Norms in India	Infrastructural Issues in India ⁹⁶
Education	X	Highly significant	X	Highly significant	Highly significant	X	Highly significant
IT-ITeS	Moderately significant	X	Highly significant	Moderately significant	X	Moderately significant	Moderately to highly significant
Engineering	Moderately significant	Moderately to Highly significant	Highly significant	Highly significant	Moderately to Highly significant	X	Moderately significant

Source: Based on primary survey

⁹² Local Content Requirement norms or requirements pertaining to Commercial presence or dependency on local partners -JVs etc.

⁹³ High Cost of Real estate in Japan, Local Content Requirement norms in Japan or requirements pertaining to Commercial presence or dependency on local partners -JVs etc.

⁹⁴ Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, transparency in visa issuance.

⁹⁵ MRA, Accreditation and licensing requirements, local employment, rigid labor laws.

⁹⁶ Erratic power supply, insufficient bandwidth, poor network connectivity etc. or International standards in Hostel, Mess, Classrooms, Disability-friendly campus

The summary of survey findings indicates that the main factors that make Japan an attractive partner market are its technological expertise, the opportunity it provides as a new untapped market for firms looking for diversification (in Asia-Pacific) and recent incentives by the Japanese government to internationalize through attracting businesses as well as investing overseas. Opportunities in the Indian market are mainly due to the quality and cost effectiveness of its workforce and to a lesser extent government policies and incentives. The main constraints relate primarily to differences in language and culture and organizational practices for both sides, followed by high investment costs in Japan and infrastructural challenges as well as regulatory issues concerning investment and labour in India. Contrary to common perception, immigration related concerns do not feature importantly on either side, although this has been a key issue raised by India in its negotiations with FTA partners in the services sector. This might reflect liberalization in visa regulations and other steps taken by the Japanese government to facilitate the movement of skilled professionals from India in recent years. Another issue which does not feature as a major barrier, is data protection. Again, this probably reflects the fact that data security and privacy issues are currently being addressed through B2B arrangements and service level agreements and also the fact that currently the engagement between India and Japan in cross border data flows and outsourcing business is quite limited. However, in light of India's recent personal data protection draft legislation and proposal for data localization, how the concerns regarding this issue might change among companies in future, would be worth examining.

Overall, the survey makes evident that for the CEPA to be more useful to both countries, the linguistic and cultural gap and the lack of understanding and awareness of each other's markets need to be bridged. Although most respondents in this survey were aware of the CEPA, awareness of its provisions and the commitments undertaken on both sides, was fairly limited. Hence, there is need for more awareness creation through discussions among industry chambers and relevant sectoral councils and stakeholders. In sum, while there are many opportunities to be exploited between the two countries and many synergies that exist between them in terms of the labour market, technology, areas of expertise, and needs, the CEPA can play a very limited role unless there is more ground level engagement at all levels, i.e., between firms, between students, researchers, industry bodies, professionals, and common people. Without enhanced connectivity at the people and organizational levels, the macro level benefits of the CEPA through trade, investment, and technology flows, cannot be realized.

5. Concluding Thoughts

It is now 10 years since the India-Japan Comprehensive Economic Partnership Agreement was signed in February 2011. Although the CEPA is fairly deep in terms of the scope and nature of its commitments in services, the prevailing view is that the projected gains in services have not materialized. The 2015-20 Foreign Trade Policy Statement of the Government of India stated that the CEPA has not yielded the expected benefits. Recognizing this unrealized potential for bilateral trade and investment, India and Japan have entered into a Special Strategic Partnership and also reiterated their commitment to expand bilateral relations across a wide range of areas.

Against this backdrop and the impending review of the CEPA, there is a need to examine how the agreement can be better utilized in future. At the general level, as already highlighted, there is a need to spread greater awareness of the agreement among stakeholders on both sides through concerted private and government efforts. Alongside, specific steps can also be taken in future negotiations, based on existing CEPA provisions and commitments. We outline some of these specific issues which if addressed could make the agreement much more meaningful. These include: (1) addressing the unfinished built-in agenda under the agreement, improving commitments, and reviewing the functioning and efficacy of those aspects which have been addressed under the CEPA; and (2); exploring synergies and collaborative opportunities as well as targeting new segments and niches.

5.1 Addressing the unfinished agenda and improving commitments

Under the CEPA, it had been agreed that both sides would enter into negotiations on the recognition of education and experience obtained and acceptance of licensing and certification requirements in specific services sectors. Till date, there is no progress in this regard. Future discussions and review of the CEPA must stress the need for respective professional bodies to negotiate and conclude such arrangements for mutual recognition of qualifications or experience, even if only in a limited way within specific services where there is mutual interest.

There is also an understanding under the CEPA to negotiate the acceptance of Indian qualified nurses and care workers and to conclude an arrangement within two years after entry into force of agreement. Given the demographic complementarity between the two countries, mobility of nurses and caregivers should be pursued in mutual interest. However, not much progress has been made on this issue. The experience of other countries such as Vietnam, Philippines and Indonesia which have such an arrangement with Japan suggests that even if India were to conclude this arrangement with Japan, very few nurses are likely to move given the high costs involved. This is because under the current arrangements, selected candidates are required to go to Japan and take tests in language proficiency and nursing. To enable more health workers to avail of the opportunities, alternative approaches should be tried, such as setting up training facilities in India and administering the tests and selection process in India, to reduce the cost and uncertainty involved. Such steps can be taken under the Cooperation provisions of the CEPA and would help in building human resource capacity in the health sector.

The CEPA has an in-built agenda to try and reduce requirements to establish or maintain some form of commercial presence in order to enter the partner's market or to provide services through mode 1. Provisions in the CEPA call for both sides to show more flexibility in reducing commercial presence requirements attached to modes 1 and 4. In this regard, a review of the agreement could focus on removing such limitations and liberalizing commitments in mode 4. As is evident from the survey findings, visa related procedural requirements and delays are not seen as a major impediment to doing business. Given the existing provisions in Annex 7 on Movement of Natural Persons address the movement of certain categories of service providers such as business visitors and intracorporate transferees), future discussions could aim at improving the quality of the sector-specific commitments in mode 4 to target the aforementioned categories as well as specific types of skilled professionals that are of mutual interest in the concerned sector (IT programmers, data analysts, web designers, etc.) and persons occupied in critical shortage areas (nursing, caregiving, occupational trades). The chapter on cooperation can be used to address issues of recognition, credentialing, equivalence, training, etc. which would be needed to facilitate such movement. Likewise, commitments in mode 3 can be improved in future discussions to address investment barriers which are perceived as being moderately or highly significant in the 4 selected sectors. This could involve a review of the inscribed limitations, a comparison of the commitments with the existing autonomous investment regime and trying to bridge the gap between autonomous policies and the commitments, at a minimum.

Another specific issue that could be pursued is that of reciprocal access to each other's government procurement market in a selected manner, starting possibly with the IT services sector. Although India is not a signatory to the Government Procurement Agreement, the Indian government could consider seeking access to Japan's government market in the IT and IT-enabled services sector based on Article 114 on Non-Discrimination of the India-Japan CEPA. The latter Article states that adequate opportunity would be given to a party (India), if the latter so requests, to enter into negotiation on any advantageous treatment concerning measures on government procurement, including access to the partner's (Japan's) government procurement market with a view to extending such advantageous treatment to the party on a reciprocal basis. Under the CPTPP Japan has extended GPA access to other countries like Malaysia and Vietnam who are not members of the GPA. The same could be considered under the CEPA, in a limited manner, starting with the IT-ITeS sector. This could greatly benefit Indian IT and BPO companies by providing them access not only to Japan's government procurement market but also to Japanese companies due to the associated recognition and acceptance once they can secure a government contract in Japan.⁹⁷

⁹⁷It is to be noted that respondents were sceptical about the public procurement provision in the CEPA for securing access to Japan's government procurement market. They noted that Japanese government tends to support Japanese firms and it may be more pragmatic to enter into long-term strategic collaboration with Japanese firms to avail of government incentives. Further, one respondent noted that the process of bidding for government projects often requires proficiency in Japanese, which impedes access to government contracts.

5.2 Exploring synergies, collaborative opportunities, and new export segments

There are several ongoing initiatives where there is scope for collaboration between the two countries. The cooperation provisions under CEPA could be utilized to further such collaborative ventures. For example, under the “Make in India” initiative, the two countries could enter into strategic collaboration in areas like IoT and robotics, which would synergize Japan’s expertise in advanced technologies with India’s attempts to upgrade its manufacturing sector. This could be facilitated through the establishment of research centres or consortia.

Likewise, synergies can be explored in the start-up segment, through funding initiatives and tie-ups between companies and funding partners in the two countries. India’s Smart Cities initiative can benefit from Japanese expertise in urban planning and management. Existing working groups and forums, such as the India-Japan Working Group on IT, the India-Japan IT Forum in Japan, and the NASSCOM-Japan Council in India can be leveraged for promoting cooperation through training programmes, internships, outsourcing of work by Japanese clients, and the branding of Indian IT companies in Japan. In the education sector, introduction of scholarships, study programmes, and faculty and student exchange schemes with government support on both sides, can enhance the people-to-people connect which is currently very limited. In particular, language and cultural training programmes and courses can help reduce the divide between the two countries. More cooperation in the education sector can have spinoffs in many other sectors.

The discussions also indicated the possibilities for diversifying the kinds of Japanese companies doing business in India. In particular, one segment which could be targeted is SMEs. The share of SMEs among all Japanese companies present in other Asian countries is higher than in the case of India. Increasing their presence in India would require promoting awareness among Japanese SMEs and providing them with a dedicated source of information on doing business in India and facilitating their operations in India.

Future CEPA discussions could also consider synergies between the goods and services provisions and commitments under the agreement given growing servicification opportunities in manufacturing. For instance, synergies between India’s capabilities in IT and other professional services and Japan’s capabilities in automotive, electronics, and engineering goods and linkages between the services and goods chapters of the agreement could be addressed in future CEPA discussions. Similarly, the synergies between the investment and services provisions and commitments under the agreement also need to be addressed as there are many potential linkages between investment flows in both goods and services and services trade prospects.

There are also certain export opportunities that India could explore in the Japanese market. These include traditional health practitioners, yoga trainers, English teachers. Issues of certification, recognition, and visa facilitation would need to be addressed. The chapter on cooperation and the provisions of Chapter 7 on Movement of Natural Persons would provide the basis for these discussions.

5.3 Selected Areas for Action

There are many areas where steps can be taken to push the bilateral agenda forward. Some of these action points can be pursued under the CEPA while others may need to be taken up in avenues outside the agreement in various consultative forums by both governments, industry associations, companies, and academic institutions. Some selected areas for action are provided in this section.

- Address data gaps in services trade and investment

Bilateral trade data is not available readily from official sources which makes it difficult to have evidence-based policy making. A mechanism should be in place to systematically collect, discuss and publish bilateral data in English and Japanese. The cooperation chapter in the CEPA and the provisions for regulatory cooperation in the services chapter, can be a starting point.

- Create financing schemes

Scholarships, loans, and other financing mechanisms should be created to facilitate the movement of students from India to Japan. Both the cooperation chapter in the CEPA and existing agreements on academic exchange and cooperation provide a basis for such steps.

- Overcome linguistic and cultural barriers and promote awareness

Enhancing people-to-people connect through language training and cultural exposure is critical to promoting bilateral relations. For this purpose, priority has to be given to establishing more language training centres in universities and dedicated Japanese language training facilities in Indian companies. To incentivize enrolment in such programs/courses, internships or exchange visits can be introduced to provide more exposure to Indian students and teachers learning Japanese. The cooperation chapter in the CEPA as well as the existing bilateral agreements and MoUs provide the basis for bridging linguistic and cultural barriers. Industry associations such as NASSCOM could promote the setting up of such language training institutes and dedicated centres to overcome linguistic and cultural barriers that currently affect Indian IT services exports to Japan. Cultural and general awareness workshops could be organized by industry bodies, particularly in the IT-ITeS sector to help companies understand each other's values, ways of doing business, and competencies and to disseminate information about companies which have successfully navigated each other's market.

- Address data protection related concerns

Given the evolving nature of India's data protection regulations, this issue will have to be addressed through more discussions between NASSCOM, Japanese companies and Indian IT companies. The approach should be to devise a B2B instrument which certifies the data secure status of the Indian service provider based on a set of criteria that is mutually agreed upon.

- Explore post-Covid opportunities

Apart from the selected action areas above to address immediate challenges, there is also a need to take a strategic medium to long term view of bilateral relations, especially post-Covid. Both countries have already entered into “The India-Japan Special Strategic and Global Partnership” which aims to develop new technologies and solutions for a post-Covid world.⁹⁸ This includes de-coupling Japanese firms from China and relocating their supply chains to other countries. This creates an opportunity for India to position itself as an investment destination for Japanese companies, with associated implications for bilateral engagement in services such as financial, IT, business support and distribution services.

- Explore geo-strategic opportunities

Another area for forging a longer-term strategic partnership post-Covid is healthcare related research and development for pharmaceuticals, medical devices and technologies, and new technologies for healthcare delivery and management. From a longer-term geostrategic perspective, there are opportunities for collaboration between the two countries in third countries, especially in Africa, to counter China’s Belt Road Initiative. The complementary expertise of Japan and India in manufacturing and services, respectively, can be leveraged for development purposes in these other regions, particularly in the areas of infrastructure and connectivity where services such as ICT, engineering, and construction would play an important role.⁹⁹

5.3 Summing up

This report has highlighted the many opportunities that can be exploited between India and Japan and the many complementarities that exist between the two countries in terms of the labour market, technology, areas of expertise, and market needs. Both the secondary and the primary evidence have highlighted these opportunity areas across a range of services. However, it is also evident that the CEPA and the services commitments and provision under this agreement have thus far played only a limited role in enabling these opportunities. This is because a ground level engagement and understanding between firms, between students, researchers, industry bodies, professionals, and common people is still lacking. Basic issues of language, culture, organizational practices, and mindset remain obstacles to expanding bilateral relations.

A key takeaway from this study is that without enhanced connectivity and understanding at the level of people and organizations, the macro level benefits of the CEPA in terms of trade, investment, and technology flows, will be difficult to realize. The macroeconomic outcomes of trade agreements ultimately rest on micro level factors. Hence, private sector and government on both sides have to invest more in building trust and in creating greater awareness of each other’s competencies and complementarities.

⁹⁸ <https://indiaincgroup.com/the-pandemic-may-open-new-doors-for-india-japan-ties-india-global-business/>

⁹⁹ <https://www.jetro.go.jp/newsletter/ind/2020/africa.pdf> and <https://www.livemint.com/Politics/gfSbaVJjfHuoUKPTMxrU8L/IndiaJapan-partnership-to-play-key-role-in-AsiaAfrica-corr.html>

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Appendix A

India – Japan Comprehensive Economic Partnership Agreement (CEPA)

In October 2010, a Joint Declaration was signed on the conclusion of the India-Japan CEPA negotiations. The agreement was signed in February 2011 and came into effect in August 2011.

The CEPA aimed to establish a framework that is conducive to doing business between the two countries. To facilitate trade in services, the agreement specified that both countries will abide by the 'National Treatment' (treat the service providers of the other country no less favorably than their own) and 'Most Favored Nation' Clauses (any agreement signed by either of the countries would not be any more favorable than this agreement signed by them).

The agreement includes a chapter on Movement of Natural Persons, with commitments to facilitate the temporary movement of service providers between the two countries based on transparent criteria & streamlined procedures. Under the CEPA, both countries have agreed to grant temporary entry and provide a work permit to the spouse and dependents of "intra-corporate transferees, contractual service suppliers and independent professionals qualifying for temporary entry", conditional upon the dependents' compliance with the immigration measures as well as meeting the qualifications for employment. The CEPA also calls for the formation of a sub-committee on 'trade in services' which would review the implementation of the services chapter and exchange information on domestic laws and regulations. The countries have agreed that there will be no restrictions on international transfers and payments for current transactions in services where they have made specific commitments.

As part of the in-built agenda, the CEPA has provisions requiring both countries to enter into negotiations regarding the recognition of education, experience, licensing and certification requirements in specific services sectors, with a view to concluding mutual recognition agreements within three years after the entry into force of the Agreement. The CEPA also suggests instituting administrative or judicial tribunals or procedures for the review and remedies in case of grievances by services suppliers. In the case of investment, the agreement requires each country to treat the investors from the other country with all fairness and equity, along with providing them full protection and security in their territory. It also forbids both countries from imposing performance requirements on investors from the other country.

Appendix B

Selected Announcements/Agreements signed between India and Japan (other than Academic/Scientific Exchange and Cooperation)

Sl. No.	Name of the MOU/Agreement/Treaty	Description
Digital and New Technologies		
1.	MoC between Ministry of Electronics and Information Technology and Ministry of Economy, Trade & Industry on Japan-India Digital Partnership	To tap into the synergies and complementarities between Japan's "Society 5.0" and India's flagship programmes like "Digital India", "Smart City" and "Start-up India" in areas of next generation technologies such as Artificial Intelligence (AI), and IoT (Internet of Things), etc.
2.	Statement of Intent between NITI Aayog and Ministry of Economy, Trade & Industry (METI), Japan on Artificial Intelligence (AI)	To encourage and develop cooperation on Artificial Intelligence technologies
Healthcare and Wellness		
3.	MoC between Ministry of Health and Family Welfare of Republic of India and the Office of Healthcare Policy, Cabinet Secretariat, Government of Japan and the Ministry of Health, Labour and Welfare of Japan in the field of Healthcare and Wellness	To establish a mechanism to identify potential areas for collaboration between India and Japan in common domains of primary healthcare, prevention of non-communicable diseases, maternal and child health services, sanitation, hygiene, nutrition and elderly care
4.	MoC between The Ministry of AYUSH of Republic of India and the Kanagawa Prefectural Government of Japan in the field of Healthcare and Wellness	To promote and deepen mutual understanding and interaction between India's Traditional Medicine Systems like "Ayurveda & Yoga" and Japan's ME-BYO.
Economic		
5.	MoU between Export Credit Guarantee Corporation of India and NEXI, Japan	For stimulating trade and investment between India and Japan and strengthening cooperation in projects in third countries.
Postal		
6.	MOC in Postal Field between the Ministry of Communications, Government of India and the Ministry of Internal Affairs and Communications, Government of Japan.	To strengthen cooperation in postal field including through setting up of Postal Services Dialogue between Ministry of Communications and Ministry of Internal Affairs and Communications

Source: https://mea.gov.in/bilateral-documents.htm?dtl/30542/List_of_AnnouncementsAgreements_signed_between_India_and_Japan_during_visit_of_Prime_Minister_to_Japan

Appendix C - Survey Questionnaires

Education Services
IT-ITeS
Technology Start-Ups
Engineering Services

Questionnaire: Education Services

SECTION I

1. Name and Address of the Institute/ University:
2. Year of Establishment:
3. Type of the University/ Institute: (Central/ State/ Deemed/ Private):
4. Degrees Offered: (Certificate Course, UG, PG, Integrated Master's Degree, MPhil and PhD). Which of these degrees attract majority of the exchange students (if any)?
5. Which of the following Courses are offered by the Institute/University: (Language, Engineering, Medical, Management, Social Sciences, Physical Sciences, Arts and Literature)? Which of these courses attract majority of the exchange students (if any)?

**If the institute/university is Indian, kindly proceed to Section II for further questions.

If the institute/university is Japanese, kindly proceed to Section III for further questions.

SECTION II

1. What is the mode of presence in the Japanese Market?

	Mode	Tick \checkmark the relevant option/options
University/Institute has a virtual education programme offered to students in Japan.	1	
University/Institute students going to Japan for education/ Japanese students coming to India for education.	2	
The University/ Institute has a campus in Japan.	3	
Exchange of Indian and Japanese Professors and researchers for short periods.	4	

2. What are some of the key barriers that affect export and import of education services between India and Japan? Please rank them as 'Not Significant', 'Moderately Significant' and 'Very Significant'. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, and lack of transparency in visa issuance)			
Non-recognition of degrees across countries/ Equivalence of degrees across countries			
Language Barriers and Cultural Barriers			
Lack of courses taught in English in Japan			
Restrictions on electronically sharing educational material			
Investment Barriers (Regulatory barriers or land acquisition issues or dependency on local partners)			
Mismatch in Quality of curriculum, R&D, technology and laboratory facilities etc.			
Lack of updated course content			
Lack of awareness/ Lack of people to people connect			
Others (Please Specify)			

3. What are some of the opportunities offered by the Japanese Market in the education services sector? Please rank them as 'Not Significant', 'Moderately Significant' and 'Very Significant'. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Growth of private sector in education sector			
Government incentives like scholarships			
Quality and rankings of certain Japanese Universities/Institutes			
Quality Faculty			
Expertise in certain contemporary domains such as AI, IoT etc.			
Global recognition in R&D and technology			
Common historical traditions such as Buddhism and commitment to the ideals of democracy, tolerance, pluralism and open society			
Lower costs of education than Western counterparts			
Others (Please Specify):			

4. What is the perception of Indian Universities/ Institutes about the quality of Japanese educational Institutes?

SECTION III

1. What is the mode of presence in the Indian Market?

	Mode	Tick \checkmark the relevant option/options
University/Institute has a virtual education programme offered to students in India	1	
University/Institute students going to India for education/ Indian students coming to Japan for education.	2	
The University/ Institute has a campus in India.	3	
Exchange of Indian and Japanese Professors and researchers for short periods.	4	

2. What are some of the key barriers that affect export and import of education services between India and Japan? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

Barriers	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, and lack of transparency in visa issuance)			
Non-recognition of degrees across countries/ Equivalence of degrees across countries			
Language Barriers and Cultural Barriers			
Lack of courses taught in English in Japan			
Restrictions on electronically sharing educational material			
Investment Barriers (Regulatory barriers or land acquisition issues or dependency on local partners)			
Mismatch in Quality of curriculum, R&D, technology and laboratory facilities etc.			
Lack of updated course content			
Infrastructural Facilities in India (International standards in Hostel, Mess, Classrooms, Disability-friendly campus)			
Lack of awareness / Lack of people-to-people interaction			
Others (Please Specify)			

3. What are some of the opportunities offered by the Indian Market in the education services sector? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate ‘Not Applicable’ (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Growth of private sector in education sector			
Government incentives like scholarships			
Quality and rankings of certain Indian Universities/Institutes			
Quality Faculty			
Expertise in certain contemporary domains such as AI, IoT etc.			
Expertise in certain contemporary domains such as IT.			
Proficiency in English			
Common historical traditions such as Buddhism and commitment to the ideals of democracy, tolerance, pluralism and open society			
Others (Please Specify):			

4. What is the perception of Indian Universities/ Institutes about the quality of Japanese educational Institutes?

SECTION IV

1. Are you aware of the existence of a CEPA (Comprehensive Economic Partnership Agreement) between India & Japan?
2. Do you think such a bilateral agreement is important from the University’s/ Institute’s perspective of engaging with India/Japan? Why or Why not?
3. Please list top three issues that you would like to be addressed by the CEPA to improve the relations between the two countries in the educational services sector?

Questionnaire: IT and IT enabled Services

SECTION I

1. Company's Name & Address:
2. Year of establishment:
3. Which are the industry verticals in which the company has presence?

**If the company is Indian, kindly proceed to Section II for further questions.

If the company is Japanese, kindly proceed to Section III for further questions.

SECTION II

1. What is the mode of presence of the firm in the Japanese Market?

	Mode	Tick \surd the relevant option/options
Off-shoring to/from Japan	1	
Serving clients in Japan through Commercial Presence	3	
Movement of intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals across India and Japan	4	

2. Year in which the company began operations in Japan through any of the above modes.
3. List the top 3 markets (countries) of the firm (by value of business done with overseas markets)
4. What rank does Japan hold as a client market? (by business done with overseas markets in this sector). (Top 10, 10-20, Above 20).

5. What are some of the key barriers that affect export and import of services with Japan? Please rank them as 'Not Significant', 'Moderately Significant' and 'Very Significant'. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry visa, transparency in visa issuance)			
Labor Regulations (Mutual Recognition Agreements, Accreditation and licensing requirements, local employment, rigid labour laws)			
Language Barriers			
Cultural Barriers (Differences in ways of doing business)			
Data Protection and IPR issues			
Investment Barriers (High Cost of Real estate in Japan, Local Content Requirement norms in Japan or requirements pertaining to Commercial presence or dependency on local partners - JVs etc.)			
Competition from China and other South East Asian countries			
Industrial Organization in Japan (Keiretsus)			
Others (Please Specify):			

6. What are some of the opportunities offered by the Japanese Market in the IT-ITeS sector? What makes Japan an attractive market for Indian firms? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
2nd largest IT services market globally			
Demographic Complementarity (ageing population in Japan v/s the growing working population in India)			
Technological Complementarity (due to Japanese expertise in hi-tech manufacturing & Indian expertise in software skills)			
Global reputation in R&D capabilities			
Diversification into new markets/ regions (Asia-Pacific)			
Incentives by Japan Government			
Others (Please Specify):			

7. What is the perception of Japanese clients about the quality of work of the Indian IT-ITeS service providers?

SECTION III

1. What is the mode of presence of the firm in the Indian Market?

	Mode	Tick \surd the relevant option/options
Off-shoring to/from India	1	
Serving clients in India through Commercial Presence	3	
Movement of intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals) across India and Japan	4	

2. Year in which the company began operations in the Indian market through any of the above modes.
3. List the top 3 markets (countries) of the firm (by value of business done with overseas markets)
4. What rank does India hold as a client market? (by business done with overseas markets in this sector). (Top 10, 10-20, Above 20).

5. What are some of the key barriers that affect export and import of IT-IT enabled services between India and Japan? Please rank them as 'Not Significant', 'Moderately Significant' and 'Very Significant'. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, transparency in visa issuance)			
Labor Regulations (MRA, Accreditation and licensing requirements, local employment, rigid labour laws)			
Language Barriers			
Cultural Barriers (Differences in ways of doing business)			
Investment Barriers (Local Content Requirement norms in India or requirements pertaining to Commercial presence or dependency on local partners -JVs etc.)			
Lack of Data Protection norms and stringent IPR Laws			
Infrastructural Issues (erratic power supply, insufficient bandwidth, poor network connectivity etc.)			
Non- Availability of Skilled Employees			
Political-economic instability			
Poor execution of laws & regulations			
Others (Please Specify):			

6. What are some of the opportunities offered by the Indian Market in the IT-ITeS sector? / What makes India an attractive market for Japanese firms? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Lower costs of skilled IT professionals/ workforce			
Large pool of English-speaking population			
Global standards in IT & IT enabled services			
High economic growth/ Maturity of local market			
Higher efficiency, productivity & capability of workforce			
High Quality & reliability of services			
Government Incentives by Indian Government			
Others (Please Specify):			

7. What is the perception of Japanese clients about the quality of work of Indian IT-ITeS firms?

SECTION IV

1. Are you aware of the existence of a CEPA (Comprehensive Economic Partnership Agreement) between India & Japan?
2. Do you think such a bilateral agreement is important from your company’s perspective for doing business with India/Japan (through offshoring/ outsourcing or through commercial presence)? Why or Why not?
3. Please list top three issues that you would like to be addressed by the CEPA to improve business between the two countries in the IT-ITeS sector?

Questionnaire: Technology Start – Ups

SECTION I

1. Company’s Name and Address:
2. Year of Establishment:
3. Which are the industry verticals in which the company has presence?

**If the company is Indian, kindly proceed to Section II for further questions.
If the company is Japanese, kindly proceed to Section III for further questions.

SECTION II

1. What is the mode of presence of the firm in the Japanese Market?

	Mode	Tick \checkmark the relevant option/options
Off-shoring to/from Japan	1	
Serving clients in Japan through Commercial Presence	3	
Movement of intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals across India and Japan	4	

2. Year in which the company began operations in Japan through any of the above modes.
3. List the top 3 markets (countries) of the firm (by value of business done with overseas markets).
4. What rank does Japan hold as a market? (by business done with overseas markets in this sector) (Top 10, 10-20, Above 20).

5. What are some of the key barriers that affect export and import of tech-based services between India and Japan? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

Barriers	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, and lack of transparency in visa issuance)			
Labor Regulations (Mutual Recognition Agreements, Accreditation and licensing requirements, localemployment, rigid labour laws)			
Language Barriers			

Work Culture: Low risk appetite (difficulty in fund-raising), Drive for perfectionism limiting innovation			
Data Protection and IPR issues			
Investment Barriers (High Cost of Real estate in Japan, Local Content Requirement norms in Japan or requirements pertaining to Commercial presence or dependency on local partners -JVs etc.)			
Stringent Regulatory Environment for Start – ups			
Others (Please Specify):			

6. What is the mode of presence of the firm in the Japanese Market?

	Mode	Tick \sqrt the relevant option/options
Off-shoring to/from Japan	1	
Serving clients in Japan through Commercial Presence	3	
Movement of intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals across India and Japan	4	

7. Year in which the company began operations in Japan through any of the above modes.

8. List the top 3 markets (countries) of the firm (by value of business done with overseas markets).

9. What rank does Japan hold as a market? (by business done with overseas markets in this sector) (Top 10, 10-20, Above 20).

10. What are some of the key barriers that affect export and import of tech-based services between India and Japan? Please rank them as 'Not Significant', 'Moderately Significant' and 'Very Significant'. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

Barriers	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, and lack of transparency in visa issuance)			
Labor Regulations (Mutual Recognition Agreements, Accreditation and licensing requirements, localemployment, rigid labour laws)			
Language Barriers			

Work Culture: Low risk appetite (difficulty in fund-raising), Drive for perfectionism limiting innovation			
Data Protection and IPR issues			
Investment Barriers (High Cost of Real estate in Japan, Local Content Requirement norms in Japan or requirements pertaining to Commercial presence or dependency on local partners -JVs etc.)			
Stringent Regulatory Environment for Start – ups			
Others (Please Specify):			

11. What are some of the opportunities offered by the Japanese Market in the tech start-up sector? / What makes Japan an attractive market for Indian tech start-up firms? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
2nd largest IT services market globally			
Demographic Complementarity (ageing population in Japan v/s the growing working population in India)			
Technological Complementarity (due to Japanese expertise in hi-tech manufacturing & Indian expertise in innovative skills and IT technology)			
Global reputation in R&D capabilities (Knowledge Transfer)			
Diversification into new markets/ regions (Asia-Pacific)			
Specialized incentives by Japan Government to support innovation for the revitalization of the economy			
Low levels of penetration of technological transformation/ digitization in sectors such as insurance, law, banking etc.			
Turning linguistic barrier into opportunity			
Others (Please Specify):			

12. What is the perception of the Japanese towards Indian tech start-ups?

SECTION III

1. What is the mode of presence of the firm in the Indian Market?

	Mode	Tick \checkmark the relevant option/options
Off-shoring to/from India	1	
Serving clients in India through commercial presence	3	
Movement of intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals) across India and Japan	4	

2. Year in which the company began operations in the Indian market through any of the modes above.
3. List the top 3 markets (countries) of the firm (by value of business done with overseas markets)
4. What rank does India hold as a client market? (by business done with overseas markets in this sector). (Top 10, 10-20, Above 20)

5. What are some of the key barriers that affect exports and imports of tech-based services between India and Japan? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’.

	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, lack of transparency in visa issuance)			
Labor Regulations (MRA, Accreditation and licensing requirements, local employment, rigid labour laws)			
Language Barriers			
Cultural Barriers (Differences in ways of doing business)			

Investment Barriers (Business Environment, Legal procedure, high dependency on local partners to set up business in India)			
Lack of Data Protection norms and stringent IPR Laws			
Inadequate R&D ecosystem			
Infrastructural Issues (erratic power supply, insufficient bandwidth, poor network connectivity etc.)			
Non- Availability of Skilled Employees			
Political-economic instability			
Poor execution of laws & regulations			
Others (Please Specify):			

6. What is the mode of presence of the firm in the Indian Market?

	Mode	Tick \checkmark the relevant option/options
Off-shoring to/from India	1	
Serving clients in India through commercial presence	3	
Movement of intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals) across India and Japan	4	

7. Year in which the company began operations in the Indian market through any of the modes above.
8. List the top 3 markets (countries) of the firm (by value of business done with overseas markets)
9. What rank does India hold as a client market? (by business done with overseas markets in this sector).
(Top 10, 10-20, Above 20)

10. What are some of the key barriers that affect exports and imports of tech-based services between India and Japan? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’.

	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, lack of transparency in visa issuance)			
Labor Regulations (MRA, Accreditation and licensing requirements, local employment, rigid labour laws)			
Language Barriers			
Cultural Barriers (Differences in ways of doing business)			

Investment Barriers (Business Environment, Legal procedure, high dependency on local partners to set up business in India)			
Lack of Data Protection norms and stringent IPR Laws			
Inadequate R&D ecosystem			
Infrastructural Issues (erratic power supply, insufficient bandwidth, poor network connectivity etc.)			
Non- Availability of Skilled Employees			
Political-economic instability			
Poor execution of laws & regulations			
Others (Please Specify):			

11. What are some of the opportunities offered by the Indian Market in the tech Start Up sector? / What makes India an attractive market for Japanese firms? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’.

	Not Significant	Moderately Significant	Very Significant
Lower costs of skilled IT professionals/ workforce			
Large pool of English-speaking population			
Global standards in IT & IT enabled services			
Start-up Revolution in tech sector			
High economic growth/ Maturity of local market			
Higher efficiency, productivity & capability of workforce			
High Quality & reliability of services			
Government Incentives by Indian Government			
Others (Please Specify):			

12. What is the perception of Japanese Startups about India and the Indian IT-ITeS services providers?

SECTION IV

1. Are you aware of the existence of a CEPA (Comprehensive Economic Partnership Agreement) between India & Japan?
2. Do you think such a bilateral agreement is important from your company’s perspective for doing business with India/Japan (through offshoring/ outsourcing or through commercial presence)? Why or Why not?
3. Please list top three issues that you would like to be addressed by CEPA to improve the business relations between the two countries in this sector?

Questionnaire: Engineering Sector

SECTION I

1. Company's Name and Address:
2. Year of Establishment:
3. Which are the industry verticals in which the company has presence?

**If the company is Indian, kindly proceed to Section II for further questions.

If the company is Japanese, kindly proceed to Section III for further questions.

SECTION II

1. What is the mode of presence of the firm in the Japanese Market?

	Mode	Tick \sqrt the relevant option/options
Off-shoring to/ from Japan	1	
Serving firms through commercial presence in Japan	3	
Movement of business visitors, intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals to across India-Japan for provision of services.	4	

2. Year in which the company began operations with Japan through either of the modes.
3. List the top 3 markets (countries) of the firm (by business done with overseas markets).
4. What rank does Japan hold as a market? (by business done with overseas markets in this sector). (Top 10, 10-20, Above 20).

5. What are some of the key barriers that affect export and import of engineering services between India and Japan? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, transparency in visa issuance)			
Labor Regulations (MRA, Accreditation and licensing requirements, local employment, rigid labour laws)			
Language Barriers			
Cultural Barriers (Ways of doing business)			
Investment Barriers (High Cost of Real estate in Japan, Local Content Requirement norms in Japan or requirements pertaining to Commercial presence or dependency on local partners -JVs etc.)			
Lack of Transparency in Competitive Bids for projects (Public Procurement)			
Unavailability of Skilled Professionals/ High Cost of Skilled professionals			
Others (Please specify):			

6. What are some of the opportunities offered by Japanese market in the engineering services sector? What makes Japan an attractive market for Indian firms? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Demographic Complementarity (ageing population in Japan v/s the growing working population in India)			
Global reputation in R&D capabilities			
Diversification into new markets/ regions (Asia-Pacific)			
Incentives by Japan Government			
Lower cost of skilled professionals in India relative to Japan (Cost advantage)			
Others (Please Specify):			

7. What is the perception of the Japanese about the quality of work of Indian engineering service providers?

SECTION III

1. What is the mode of presence of the firm in the Indian Market?

	Mode	Tick \checkmark the relevant option/options
Off-shoring to/ from India	1	
Serving firms through commercial presence in India	3	
Movement of business visitors, intra-corporate transferees (Managers, Executives, Specialists), contractual service suppliers & independent professionals to across India- Japan for provision of services.	4	

2. Year in which the company began operations with India through either of the modes.
3. List the top 3 markets (countries) of the firm (by business done with overseas markets)
4. What rank does India hold as a market? (by business done with overseas markets in this sector). (Top 10, 10-20, Above 20)
5. What are the types of operations which the Indian clients generally seek to be carried out by the firm?

Or

What are the types of operations which the firm outsources/ offshores to Indian firms?

6. What are some of the key barriers that affect export and import of engineering services between India and Japan? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
Immigration Policies (Long timelines, Cumbersome processes and procedural requirements, dependents/ spouses, multiple entry, transparency in visa issuance)			
Labor Regulations (MRA, Accreditation and licensing requirements, local employment, rigid labour laws)			
Language Barriers			
Cultural Barriers (Differences in ways of doing business)			
Investment Barriers (Local Content Requirement norms in India or requirements pertaining to Commercial presence or dependency on local partners -JVs etc.)			
Infrastructural Issues (erratic power supply, insufficient bandwidth, poor network connectivity etc.)			
Regulatory and Institutional Constraints			
Technology adaptation and R&D short comings			
Lack of Transparency in Competitive Bids for projects (Public Procurement)			
Lack of Domain experience in potential employees			
Any Other. Please Elaborate.			

7. What are some of the opportunities offered by Indian Market in the engineering services sector? What makes India an attractive market for Japanese firms? Please rank them as ‘Not Significant’, ‘Moderately Significant’ and ‘Very Significant’. Please Indicate 'Not Applicable' (N.A.) wherever the options seem non-relevant.

	Not Significant	Moderately Significant	Very Significant
High economic growth/ Maturity of local market			
Government Incentives			
Large number of infrastructural development projects (Scope)			
Exploring new geographies			
Availability of low-cost, young, efficient and skilled professionals			
Rising demand of an overall solution that is a combination of engineering and IT (And India’s established IT sector is a complementarity)			
Any Other. Please Elaborate.			

8. What is the perception of the Japanese about Indian clients and/or the quality of work of Indian engineering service providers?

SECTION IV

1. Are you aware of the existence of a CEPA (Comprehensive Economic Partnership Agreement) between India & Japan?
2. Do you think such a bilateral agreement is important from your company’s perspective for doing business with India/Japan? Why or Why not?
3. Please list top three issues that you would like to be addressed by the CEPA to improve business between the two countries in the engineering services sector?
