ISAS Brief

No. 314 – 28 January 2014

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Abe in India: High on Loans, Low on Trade

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The Japanese Prime Minister Shinzo Abe visited India from 25 to 27 January 2014 at a time when both countries are hunting for solutions for improving their medium-term growth prospects.

'Abenomics', as Prime Minister Abe's economic policies are popularly referred to, succeeded in imparting a push to economic activity in Japan. Nikkei – the benchmark index at the Tokyo Stock Exchange – outpaced other indices in the region by touching a six-year high towards the end of 2013. The year saw Japanese GDP growing by 1.7 per cent, which was higher than the collective rate of growth of 1.3 per cent for the GDP of advanced economies. Among the G8 countries, Japan's GDP growth last year was lower than only that of the US (1.9 per cent), while being on par with the UK's and Canada's.[2] But the growth-inducing effects of the expansive monetary and fiscal policies taken by Abe last year might be short-lived with GDP growth expected to remain at 1.7 per cent in 2014 and moderate to 1.0 per cent in 2015 as the stimuli peter out.

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[2] World Economic Outlook (WEO) Update, January 2014; IMF; http://www.imf.org/external/pubs/ft/weo/2014/update/01/ Accessed on 27 January 2014.

India, on the other hand, recorded one of its lowest GDP growth rates of recent times in last year, when it grew by 5.0 per cent in 2012-13, the slowest rate of growth since 3.9 per cent in 2002-03. While the GDP estimates for the current fiscal year (2013-14) are yet to become available, GDP growth is expected to be range-bound between 5-5.5 per cent by the Finance Minister's own admission.[3] There is a possibility of GDP growth rising above 6.0 per cent in 2014-15. Materialisation of the possibility, as well as the prospect of India getting back to a 7.0 per cent-plus GDP growth curve it was on for most of the last decade, will depend on the outcome of the forthcoming parliamentary elections and the economic policies of the new government.

For India, kick-starting the upward growth cycle is a top priority. The process can hardly take off without momentum being provided to infrastructure projects. Ongoing projects need to move fast and onto their next stages; new projects have to become operational at the same time. None of these is possible without adequate funds. To that extent, India was looking forward to the Japanese Prime Minister's visit for discussing the possibility of obtaining more Japanese funding in domestic infrastructure development. And Prime Minister Abe has not disappointed.

Generous Japanese loan assistance has been announced for a series of projects including reconstruction activities in the flood-hit Himalayan state of Uttarakhand, the 3rd phase of the Delhi Mass Rapid Transport System (MRTS), renewable energy development and development of micro, small and medium enterprises (MSMEs). Greater financial and technical support from Japan is also expected for the ongoing Delhi Mumbai Industrial Corridor (DMIC) project, as well as for building high-speed rail networks in the country, for a component of which a feasibility study announced for the Mumbai-Ahmedabad route is expected to be completed by July 2015. Japanese agencies like the JICA are also expected to play a major role in further development of infrastructure in the industrially robust Chennai-Bengaluru Industrial Corridor. Among other decisions that are of importance to India is the decision by Japan to allow short-term multiple entry visas for enhancing people-to-people contact. The scope of the bilateral currency swap agreement has been expanded from US$ 15

[3] 'India's growth rate seen between 5-5.5 percent in 2013-14: P Chidambaram' *Financial Express*, 27 January 2014; http://www.financialexpress.com/news/indias-gdp-growth-rate-seen-between-55.5-per-cent-in-201314-p.-chidambaram/1195300 Accessed on 27 January 2014

billion to US$ 50 billion allowing both countries ample leverage for managing unexpected volatilities in their foreign exchange markets.[4]

Overseas development assistance in form of loans implies a steady stream of returns for the donor as the recipients have to service these loans according to the agreed conditions. To that extent, greater loan assistance extended to a large economy like India is always financially beneficial for donors like Japan. Very few countries in the world would offer the kind of loan exposure that India does, given its large requirements and paucity of funds at home for projects. At present, Japanese loans are one of the best infrastructure funding options for India given the fiscal stress that loans secured at market rates would entail and India's low international credit rating. Japanese loans are preferable as they are mostly 'soft' with longer repayment periods. Thus greater Japanese loan assistance to infrastructure projects in India is a 'win-win' outcome for both countries at this point in time.

Beyond providing a fillip to the donor-recipient relationship that has been a prominent characteristic of the Japan-India economic engagement for several decades, Abe's visit, unfortunately, had little else to offer. One would have expected the visit to come out with specific pronouncements for improving bilateral trade. Bilateral trade has hardly picked up in spite of the long-negotiated Comprehensive Economic Partnership Agreement (CEPA) between the two countries, which commenced almost three years ago. At US$ 18.5 billion, India's trade with Japan is not even one-third of its trade with China (US$ 65.8 billion). Apart from China, India's trade with Singapore (US$ 21.1 billion), Indonesia (US$ 20.2 billion) and Hong Kong (US$ 20.2 billion) is more than that with Japan.[5] Japan does not figure any longer among India's top ten trade partners indicating the extent by which India's commercial engagement has deepened with other countries in Northeast and Southeast Asia. Declining trade with India should clearly be a worry for Japan given that it was once India's largest trade partner in Asia.

Indeed, the CEPA with Japan can hardly be expected to improve access of Indian exports to the Japanese market unless specific non-tariff barriers (NTBs) impeding such access are removed. It is surprising that Prime Minister Abe's visit hardly focused on these NTBs, particularly the barriers affecting export of Indian generic drugs to Japan, like tedious

[4] 'Joint Statement on the occasion of Official Visit of the Prime Minister of Japan to India (January 25-27, 2014)', 25 January 2014, Ministry of External Affairs, Government of India; http://mea.gov.in/bilateral-documents.htm?dtl/22772 Accessed on 27 January 2014.

[5] Export Import Data Bank, Ministry of Commerce, Government of India. The figures are for 2012-13. http://commerce.nic.in/eidb/iecnttopn.asp Accessed on 27 January 2014.

registration process and language barriers. On India's part, there hardly appears to be any option other than addressing these barriers through sustained lobbying, as India did, for reversing Japan's sudden decision to change standards on shrimp exports in August 2012.[6] But if such lobbying becomes the norm, then there is little hope of Indian exports getting quick access to Japanese market and bilateral trade improving in a balanced fashion in the medium term.

On the whole, Prime Minister Abe's visit, from an economic perspective, served the Japanese intention to enhance its strategic soft power by committing large-scale cheap loans for India's infrastructure at a time when India is looking forward to such funds. Otherwise, however, the visit hardly imparted any substantive, qualitative thrust to the bilateral economic relationship.

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[6] Japan's sudden decision in August 2012 to impose a default level of maximum 0.01ppm Ethoxyquin for shrimp imports affected these exports from India. The level has since been adjusted to 0.02ppm. 'How to Fight Non-Tariff Barriers and Win it', *Business World*, 22 January 2014; http://www.businessworld.in/news/economy/how-to-fight-non-tariff-barriers-&-win-it/1226354/page-1.html Accessed on 27 January 2014.