Chapter 4

Harnessing India–Japan Economic Partnership for Supply Chain Resilience in the Aftermath of the Trump Tariffs

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Chapter 4

Harnessing India–Japan Economic Partnership for Supply Chain Resilience in the Context of Global Trade Policy Uncertainties

Nagesh Kumar[1]

1. Context

The disruptions caused by lockdowns following the onset of the coronavirus disease (COVID-19) pandemic helped to highlight the heavy concentration of global supply chains of nearly all manufactured products in a single country. Recognising the pitfalls of such heavy dominance by one country led global companies to begin a process of diversification of their supply chains on a 'China Plus One' basis as part of de-risking strategies. The governments of leading industrial nations, including the United States (US), the European Union (EU), and Japan, also adopted industrial policies with budgets running into hundreds of billions of US dollars, combined with protectionism, to facilitate the restructuring of supply chains and make them resilient (Kumar 2024a, ISID 2025). The Trump 2.0 administration in the US is taking the process to new levels to try to reshore supply chains through very heavy protectionism in the form of reciprocal tariffs imposed on most exporters. Given their complementary economic structures and other endowments, their shared democratic values, and a close and deep strategic partnership, the India–Japan economic partnership has the potential to create alternative supply chains that would help to build a more equitable global order. However, despite deepening political engagement and institutional mechanisms, including the Comprehensive Economic Partnership Agreement (CEPA), the India–Japan economic partnership has failed to realise its well-recognised potential.

Against that backdrop, this paper reviews the opportunities and challenges the India–Japan economic partnership faces and recommends a policy agenda for harnessing its potential. It discusses the extent of concentration of global supply chains, the global trend of diversification, and the advantages of India in the rebuilding of supply chains. It summarises the steady deepening of the India–Japan strategic partnership, while noting

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that the bilateral economic partnership has yet to match the level of close political engagement. The paper concludes by outlining a way forward to realise this untapped potential.

2. High Concentration of Global Supply Chains in Traditional and Sunrise Industries

The global supply chains of traditional and sunrise industries have come to be dominated by China (Table 4.1). Amongst traditional industries, China has 53% of global crude steel capacity, 60% of aluminium, 44% of lead, 51% of cement, 50% of float glass, 40% of global chemical sales, 33% of plastics, 30% of thermal power equipment, 80% of room air conditioners, and 35% of automobiles capacity in the world. Amongst labour-intensive industries, China dominates toy manufacturing with a 70% share, and accounts for 38% of furniture, 55%–60% of footwear, 44% of textiles, and 32% of apparel production.

In green sunrise sectors, China's domination is even more complete, with over 80% of all stages of solar photovoltaic (PV) panel manufacturing, 76% of lithium-ion batteries, 60% of global wind turbine capacity, and 62% of global electric vehicle (EV) production. China also accounts for 75% of the global output of mobile phones, smartphones, and laptops.

Table 4.1: Concentration of Global Manufacturing Capacity in China, 2024

Sectors/ Products	Share (%)	Source
Wind turbines	>60	Windtech International (2025)
Solar Photovoltaic modules	>80	IEA (2022)
Lithium-ion batteries	76	Shanghai Metal Market (2025)
Electric Vehicles	62	Venditti (2025)
Mobile phones/smartphones	75	Zhou (2025)
Laptops	75	Gupta (2025)
Air conditioners	80	IBISWorld (2025a)
Display screens	72	Ezell (2024)
Integrated circuits	34	*The Hindu* (2025)
Steel (crude)	53	World Steel Association (2025: Table 3)
Aluminium	60	Statista (n.d.-a)
Cement	>51	Statista (n.d.-d)
Lead	44	*Mining Technology* (2024)
Thermal power equipment	30	IEA (2024)
Chemicals	>40	TradeImeX (2025)
Float Glass	>50	Statista (n.d.-b)
Plastics	33	Statista (n.d.-c)
Automobiles	35	ACEA (2025)

Sectors/ Products	Share (%)	Source
Textiles	44	*China Textile Leader* (2025)
Apparel	32	*China Textile Leader* (2025)
Footwear	55–60	IBISWorld (2025b)
Furniture	34–38	China International Furniture Fair (2025)
Toys	70	Cosmo Sourcing (2025)
Beverages	22	Statista (n.d.-e)
Tobacco products	38	IMARC Group (2024)
Tyres	41–52	IBISWorld (2024)
Wood and products	43	HORIZON Grand View Research (n.d.-c)
Household electrical equipment	27	HORIZON Grand View Research (n.d.-a)
Jewellery	24	HORIZON Grand View Research (n.d.-b)

Source: ISID compilation from the sources mentioned.

China holds a dominant position in the global critical minerals supply chain, processing over 85% of the world's rare earths, including about 60% of the world's germanium, 80% of global gallium production, 70% of lithium refining, and 78% of antimony. Gallium is used in semiconductors, germanium in both semiconductors and infrared technologies, and antimony in the production of everything from bullets to missiles, while lithium is critical for electric batteries.

The pandemic-linked lockdowns and the disruptions caused by them helped to focus attention on the vulnerabilities created by such a high dominance of global supply chains. Such dominance also raises strategic concerns and enhances the vulnerabilities that are often associated with high dependence. Instances of weaponisation of the domination of supply chains have already taken place, such as China's December 2024 ban on exports to the US of critical raw materials (Rockwell, 2025). The number of restrictions on the export of critical raw materials applied by governments grew more than fivefold from 2009 to 2020 to 13,102 (Kowalski and Legendre, 2023). In April 2025, China imposed export restrictions on seven rare earth elements (REEs) and related permanent magnets, requiring special export licenses and threatening to disrupt manufacturing in the automotive and electronics industries in India, Japan, and beyond. At the same time, excluded from the US market due to high tariffs, Chinese firms – faced with excess capacity and backed by deep financial reserves – have been dumping products in multiple markets, undermining domestic industries. Several Southeast Asian countries, including Thailand and Indonesia, have already witnessed the closure of thousands of factories due to this influx of cheap Chinese goods and have begun implementing measures to mitigate the damage. In India, such dumping is particularly severe in labour-intensive consumer goods – such as garments, imitation jewellery, non-leather footwear, toys, and furniture – posing serious challenges to local producers, especially MSMEs (ISID 2025).

3. Industrial Policy for Restructuring Supply Chains

Several leading industrialised countries including the US and the EU, are pursuing industrial policies to enhance supply chains resilience through onshoring/friend-shoring. In the US industrial policy has become the 'New Washington Consensus' (Kumar 2024a, ISID 2025). The Biden Administration laid out its industrial strategy through a series of landmark legislation, including the $280 billion CHIPS and Science Act, 2022; the $737 billion Inflation Reduction Act, 2022; and the $550 billion Infrastructure Investment and Jobs Act, 2021. These initiatives aim to bolster local manufacturing and innovation in critical areas such as semiconductor chips, electric mobility, and other advanced technologies by providing hundreds of billions of dollars in subsidies and tax incentives. In May 2024, these measures were reinforced by imposing steep tariffs of up to 100% on imports of steel, semiconductors, EVs, batteries, and solar PV modules from China. The US also restricted exports of next-generation semiconductor chips and related equipment to China. There is bipartisan consensus in the US on pursuing aggressive economic nationalism. This shift marks a significant departure from the Washington Consensus of the late 1980s, which emphasised globalisation, deregulation, and the virtues of free markets. The so-called New Washington Consensus prioritises strategic industrial policy. The Trump Administration 2.0 is taking this approach to new levels with the imposition of high reciprocal tariffs on virtually all countries announced on 2 April 2025, in addition to the 10% base tariffs, to rebuild domestic manufacturing capabilities, although it later paused them for 90 days.

The EU has followed up with its own industrial policy initiatives. On 1 February 2023, the EU unveiled the Green Deal Industrial Plan for the Net-Zero Age, aimed at strengthening the competitiveness of its industry while advancing its net zero objectives. This framework includes three key legislative proposals. The Net-Zero Industry Act, 2023 seeks to simplify regulations for producing key technologies, set capacity targets for 2030, streamline permitting processes, and encourage public authorities to procure clean technologies. The Critical Raw Materials Act, 2023 aims to secure a stable supply of raw materials essential for the net zero transition. Finally, reforms in electricity market design focus on enhancing market resilience, minimising the impact of gas prices on electricity bills, and supporting the energy transition. A major outcome of the EU's climate-focused industrial policy is the European Battery Alliance, a collaborative network promoting battery research and subsidised manufacturing across Europe. The EU is also working to expand its global share in semiconductor production and lead advancements in quantum computing. Additionally, the EU adopted a Carbon Border Adjustment Mechanism (CBAM) in December 2022, targeting imports of carbon-intensive goods such as cement, steel, aluminium, fertilisers, electricity, and hydrogen. Under this policy, EU importers must purchase CBAM certificates to account for carbon emissions associated with production. A transitional phase began in October 2023, with full implementation scheduled for 2026. Although the CBAM aims to support climate goals, it has been widely criticised as

unilateral, protectionist, and discriminatory – adopted to protect domestic industries. The EU has also followed the US in imposing additional tariffs on imports of EVs from China (Kumar 2024a, ISID 2025).

Japan launched the US$2 billion Supply Chain Diversification Programme in 2020 to help Japanese companies diversify and reduce their dependence on China by providing subsidies that incentivise companies to onshore or reshore their operations to friendly countries in the Association of Southeast Asian Nations (ASEAN). In the second phase, India and Bangladesh were added to the list of countries eligible for reshoring incentives. The Economic Security Promotion Act 2022 aims to enhance the resilience of supply chains. Under the Supply Chain Diversification Programme, incentives have been provided to several companies to reshore manufacturing projects – mainly in Viet Nam, but also in Indonesia, Malaysia and Thailand. Financial assistance was also provided to Toyota Tsisho and Sumida Corporation to diversify in India.

4. India Offers Win–Win Opportunities for Reshoring of Supply Chains by Japanese Companies

India offers several advantages, as outlined below, in terms of building alternative supply chains, which have helped to attract many large companies, including Apple, to make the country an important new manufacturing hub.

Large and fast-growing domestic market: India has sustained a rising trajectory of economic growth over the post-Independence period (Kumar 2022). The country emerged from the Covid-pandemic as the fastest-growing major economy in the world. The robust growth of around 6.5% over 2015-2025 decade helped the country become the fifth largest economy in the world from 9th in 2014. The country is projected to surpass Japan in 2025 to become the fourth largest economy, and Germany in 2028 to emerge as the third largest. With over 1.40 billion people, India is now the largest country in the world in terms of population. While per capita income levels are still low, the growing middle class has become a sizeable consumer of different manufactured goods and services, making India one of the largest global markets for several products, including motor vehicles, mobile phones, electronics, jet airliners, and a range of consumer goods. For example, annual imports of electronics are about $80 billion and growing rapidly, with projections rising to $400 billion by 2030. The large and growing domestic market can support several world-scale manufacturing plants for most industrial goods.

The demographic dividend: India also enjoys a demographic sweetspot, thanks to its relatively young population with a median age of 28 years. The share of the working-age population in India will peak at 68.9% around 2030 and will stay favourable until about 2056 (EY 2023). This contrasts with rapidly ageing populations in most industrialised

countries, such as Japan and European countries, as well as newly industrialised countries, such as the Republic of Korea (henceforth, Korea) and China. Hence, India is widely seen as the centre of the global workforce and skills of the future (Kumar 2023, ISID 2025). The demographic profile suggests that India could supply not only unskilled and semi-skilled workers for assembling and other manufacturing jobs but also workers trained in artificial intelligence (AI), machine learning, and data science who will be in huge demand as the Fourth Industrial Revolution (Industry 4.0) takes hold (Kumar 2023).

The geopolitical advantage: The ongoing industrial restructuring of global supply chains is designed to reduce their heavy dependence on one source – China – making the China Plus One strategy integral to their de-risking strategies. This has a geopolitical dimension as it involves either diversification to other friendlier countries (friend-shoring) or reshoring back to their home country, as automation reduces the importance of cheap labour arbitrage. India enjoys a geopolitical sweetspot in attracting this supply chain restructuring, given its friendly relations with major industrialised countries in both the West and the East, including free trade agreements or comprehensive economic partnership agreements (CEPAs) with Japan, Korea, Australia, ASEAN, the United Arab Emirates, the European Free Trade Association (EFTA) countries, the just concluded with the United Kingdom, amongst others, as well as ongoing negotiations with the EU and US. The emergence of India as the second-largest player in mobile phone assembly, with Apple and Samsung locating their assembly lines in the country, reflects the potential of positioning itself as an alternative supply chain destination.

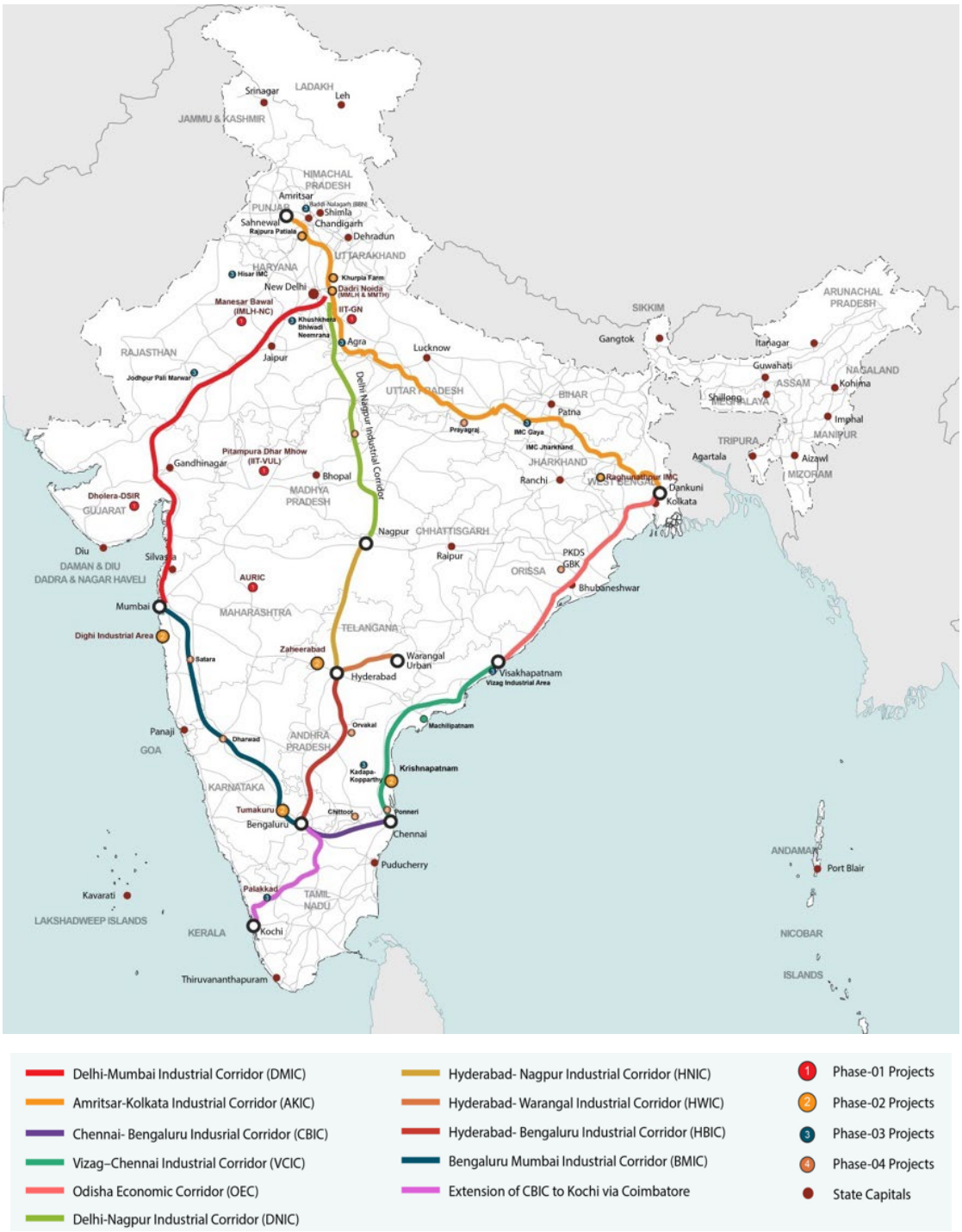
Growing technological prowess and ICT capability: India has been moving up the Global Innovation Index, the World Intellectual Property Organization's comprehensive index of innovation, based on indicators of institutions, human capital and research, infrastructure, market and business sophistication, knowledge and technology outputs, and creative outputs. In 2024, India ranked 39th among 133 countries, marking a significant improvement from 81st a decade earlier. This jump of 42 places outperformed expectations corresponding to its status as a lower middle-income country and put India ahead of countries with much higher per capita incomes, such as Thailand, Viet Nam, Brazil, Indonesia, and South Africa.[2] India performs particularly well in knowledge and technology outputs, ranked 22nd globally. Information and communication technology (ICT) software and chip design capabilities could propel India to prominence in Industry 4.0. India's globally acknowledged software development and chip design capability are significant advantages in terms of manufacturing, which has attracted Fortune 500 companies to establish 1,700 Global Capability Centres in India to leverage these skills. As India seeks to build an ecosystem for electronics and semiconductors, these capabilities would lend it an edge. Furthermore, India's large and fast-growing market offers opportunities to build world-scale plants to tap scale economies.

[2] See ISID (2025) for more detailed analysis.

Start-up ecosystem fostering technology-driven entrepreneurship: With nearly 160,000 start-ups recognised by the government as of 15 January 2025, India has firmly established itself as the third-largest start-up ecosystem in the world. This vibrant ecosystem, driven by over 100 unicorns, continues to redefine innovation and entrepreneurship on the global stage. Major hubs like Bengaluru, Hyderabad, Mumbai, and Delhi National Capital Region have led this transformation, while smaller cities have increasingly contributed to the nation's entrepreneurial momentum. Start-ups in fintech, edtech, health tech, and e-commerce have tackled local challenges and gained global recognition. Companies like Zomato, Nykaa, and Ola showcase India's shift from job seeker to job creator, driving economic progress (ISID 2025).

Improving logistics infrastructure and industrial corridors: Efficient logistics and industrial infrastructure are critical for manufacturing competitiveness. To address infrastructure constraints and provide efficient logistics support for industrialisation, the government is implementing the National Industrial Corridor Development Programme. This programme includes a Multi-Modal Transport Network encompassing railways, highways, expressways, waterways, airports, and ports; logistics/trans-shipment hubs; industrial cities/townships; and urban infrastructure, sometimes referred to as freight, industrial, railways, and expressways (FIRE corridors). Eleven industrial corridors are under development across the country (Figure 4.1). Five of these corridors were approved between 2007 and 2014, and the remaining six received approval between 2019 and 2020. The first corridor, the Delhi–Mumbai Industrial Corridor, is the most advanced in terms of implementation. Overall, 32 projects across these 11 corridors are planned to be completed in four phases, focusing on manufacturing zones, logistics, and transport hubs. As these industrial corridors pass through some of India's less industrialised states, they are expected to promote more balanced regional development (ISID 2025).

Figure 4.1: India's Industrial Corridors



Source: https://www.nicdc.in/resources/corporate-brochure

Strengthening the logistics infrastructure: Recognising the importance of logistics infrastructure in developing the manufacturing sector, the Government of India has launched several initiatives aimed at improvement, including high-speed dedicated freight corridors connecting Delhi, Mumbai, Chennai, and Howrah as part of the Indian Railways Network, enhancing logistics efficiency. Multi-Modal Logistics Parks

strategically located at 35 important sites offer access to road, rail, and air transportation. The PM Gati Shakti National Master Plan, launched in October 2021, is a $1.2 trillion plan to improve logistics efficiency and reduce costs by coordinating infrastructure planning across agencies and breaking down interdepartmental barriers. The National Logistics Policy, adopted in 2022, complements the Gati Shakti initiative by focusing on swift last-mile delivery and resolving transport-related challenges to reduce costs and improve efficiency in the logistics sector. India is deploying new technologies like radio frequency identification (RFID) tags to enable end-to-end tracking of the supply chain, reducing delays. The introduction of the e-waybill system, which mandates electronic documentation for truckloads valued above ₹50,000, reduces the need for physical paperwork and state boundary checks, enhancing logistics efficiency and expediting supply chains. India has also made substantial progress in trade facilitation through digitalisation. A major contributor to this improvement is the Indian Customs Electronic Data Interchange Gateway (ICEGATE), the national portal for e-filing services that connects trade users with the Customs Department and facilitates information exchange with international trading partners. India's enhancements in logistics infrastructure are reflected in its improved rank on the World Bank's Logistics Performance Index, moving from 54th in 2014 to 38th in 2023.[3]

Cross-border economic corridors and hub for Asia–Europe trade: India is building cross-border economic corridors on both its eastern and western borders as strategic initiatives to enhance trade. These include the International North–South Transport Corridor, which will provide India with direct access to Central Asia via Chabahar port in Iran. India has signed a 10-year contract to develop and operate Chabahar. The India–Middle East–Europe Economic Corridor (IMEC) is another important initiative in cross-border connectivity. The IMEC will comprise two segments: the East Corridor, connecting India to the Gulf, and the Northern Corridor, linking the Gulf to Europe. On the eastern side, India has been working on the India–Myanmar–Thailand (IMT) Highway, a 1,360-kilometre route that will connect Moreh in Manipur with Mae Sot in Thailand. With emerging international transport corridors on both its eastern and western sides, India is well-positioned to become a hub for Asia–Europe trade.[4]

Revamped SEZ Programme: A Special Economic Zone (SEZ) is a designated geographic area with distinct economic regulations. The SEZ Act, 2005 became effective in February 2006, following the establishment and notification of SEZ rules. These zones offer numerous benefits, including (i) tax incentives, (ii) access to standard factories/plots at low rents with extended lease periods, (iii) infrastructure and utilities provision, (iv) single window clearance, (v) simplified procedures, and (vi) exemptions from various investment restrictions found in the domestic economy. India has 262 operational SEZs hosting 5,537

[3] See ISID (2025) for more detailed analysis.
[4] See ISID (2025) for more detailed analysis.

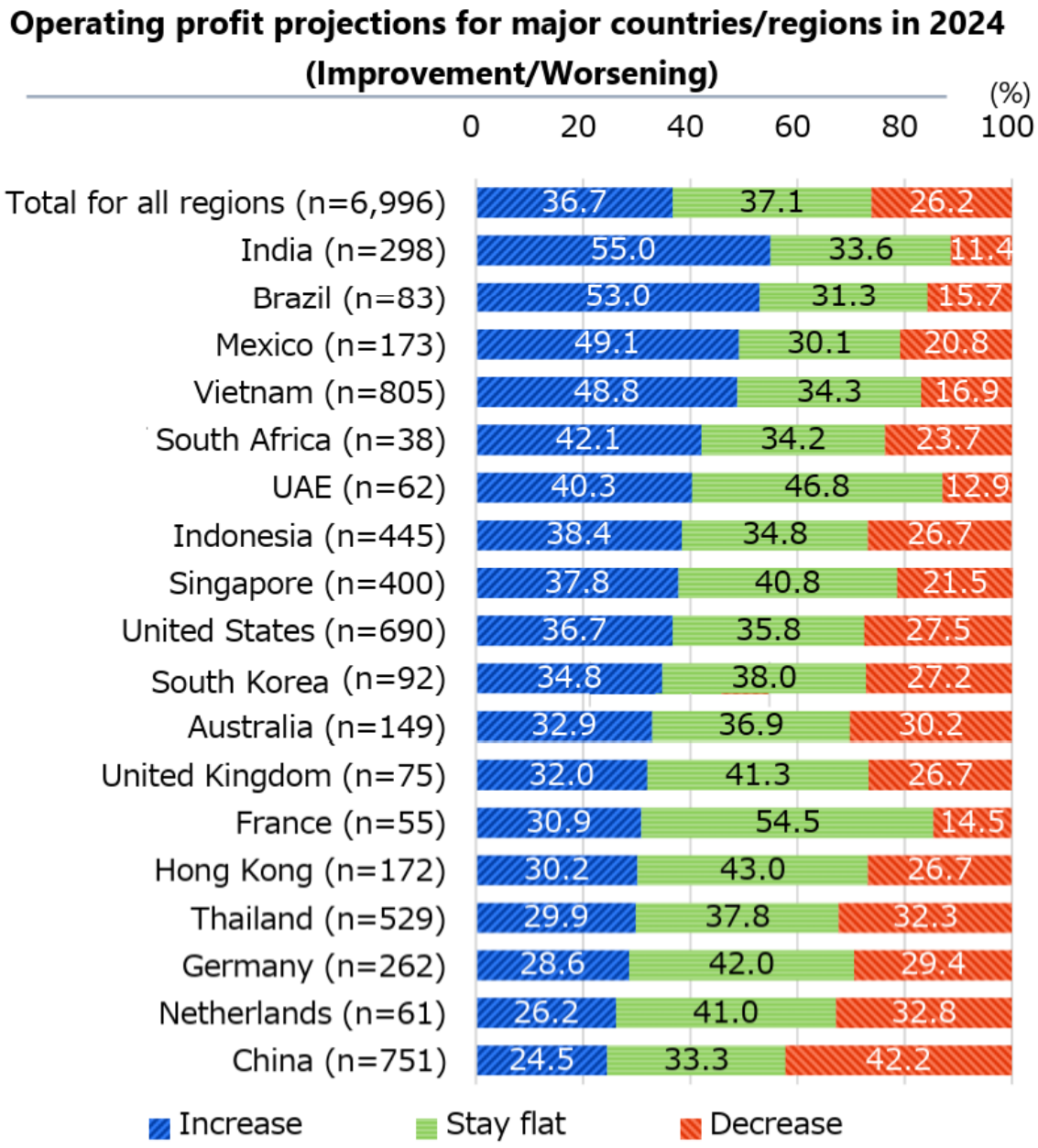
approved units. Future SEZs are expected to align with the dedicated freight corridors (ISID 2025).

Industrial policy and reforms to foster the manufacturing sector: The Make in India programme, adopted in 2014, has brought the focus back on building manufacturing capacities. The major reforms include the Insolvency and Bankruptcy Code, 2016, which provided a consolidated framework governing insolvency and bankruptcy proceedings for companies and the Goods and Services Tax (GST), introduced in 2017, which made India a single market. Apart from these big reforms, the government has focused on improving the ease of doing business through the abolition of thousands of obsolete regulations and processes that hinder industrial investment. Foreign direct investment (FDI) ownership caps in several sectors (e.g. railways, defence manufacturing, insurance, and medical devices) were increased, and an investment promotion and facilitation agency, Invest India, was established. Corporate tax rates were also reduced in FY2019/20 from 35% to just 22% and 15% for new companies. Indian companies now pay a lower statutory tax rate than companies in other emerging economies such as Argentina, Brazil, and Mexico. As a result of these steps, India's ranking on the World Bank's Ease of Doing Business index jumped from 142 in 2014 to 63 in 2019 (before the World Bank abandoned the rankings in 2021). Make in India has been reinforced and boosted by the Production-Linked Incentive (PLI) scheme and sectoral missions. Introduced in 2020 as part of the Self-Reliant India (*Aatmanirbhar Bharat Abhiyan*) package, the PLI provides a 4%–6% incentive to boost local production (or substitute imports) and exports for 14 select sectors. These include sunrise and green manufacturing products such as solar PV cells and modules, advanced chemistry batteries, active pharmaceutical ingredients, large-scale electronics, medical devices, speciality steels, and telecom and networking equipment. The PLI was extended to two additional sectors – toys and footwear – in 2024–25. To create a full ecosystem for electronics, the government launched the $10 billion India Semiconductor Mission in 2022 to promote the manufacture of semiconductor chips and displays. In the same year, the government announced the $2.3 billion National Green Hydrogen Mission to make India a leading manufacturer and exporter of green hydrogen (Kumar 2024b).

India's emergence as the most attractive FDI destination backed by JETRO surveys: The 2024 Japan External Trade Organization (JETRO) Business Conditions Survey highlighted an outstanding improvement in India's performance, with 80% of Japanese firms expecting to expand operations in India compared with 45% for all regions and only 22% for China (Figure 4.2) (JETRO, 2024). In India, the share of Japanese companies seeking 'expansion' increased for the fourth consecutive year and exceeded 80% for the first time in 12 years – the highest amongst all the regions and countries. In India, 'expansion of local market needs' was the most cited reason. Furthermore, the survey reported that 55% of Japanese companies in India had a rising profit projection, compared with only 24.5% in China (JETRO, 2024). The survey also reported that in India, competition

intensified due to European and United States companies aggressively conducting M&As and forming alliances with local firms (JETRO, 2024).

Figure 4.2: Business Plans of Japanese Companies in India and Major Host Countries, 2024



UAE = United Arab Emirates.
Source: JETRO (2024).

5. Steady Evolution of India–Japan Partnership

India and Japan have had cultural exchanges since the sixth century, when Buddhism was introduced to Japan. In modern times, India and Japan established diplomatic relations in 1952 and signed a peace treaty. The first yen loan was extended to India in 1958 following the visit to India, of Japanese Prime Minister Nobusuke Kishi. Prime Minister Atal Bihari Vajpayee and Prime Minister Yoshiro Mori established the Global Partnership between the two countries during the Japanese premier's visit to India in 2000. Since 2005, India and Japan have had annual summits. In 2006, during the visit to Japan of Prime Minister Manmohan Singh, the bilateral relationship was elevated to a Global and Strategic Partnership. They also established a Joint Study Group to explore the feasibility of a CEPA. After 14 rounds of trade negotiations following the recommendation of the Joint Study Group, the India–Japan CEPA was signed in 2011 and has been in force since then. In 2014, during the visit of Prime Minister Narendra Modi to Japan, the two countries agreed to upgrade their relationship to a Special Strategic and Global Partnership. In 2015, during Prime Minister Shinzo Abe's visit to New Delhi, the two prime ministers resolved to transform the India–Japan Special Strategic and Global Partnership into a deep, broad-based, and action-oriented partnership, reflecting the broad convergence of their long-term political, economic, and strategic goals. They announced the 'Japan and India Vision 2025 Special Strategic and Global Partnership: Working Together for Peace and Prosperity of the Indo-Pacific Region and the World', a joint statement to guide the 'new era in Japan–India relations'.[5]

In 2022, during the visit of Prime Minister Fumio Kishida to India, the two countries adopted a joint statement on a 'Partnership for a Peaceful, Stable and Prosperous Post-COVID World'. They also expressed the intention to realize ¥5 trillion of public and private investment and financing from Japan to India in the next 5 years, recalled the establishment of the India–Japan Industrial Competitiveness Partnership (IJICP) in November 2021, and welcomed the formulation of a roadmap for the IJICP and the launch of the India–Japan Clean Energy Partnership.

Besides bilateral engagement at the leaders' level, India and Japan have evolved multiple forums of engagement, including bilateral comprehensive and sectoral ministerial meetings such as the 2+2 Ministerial Dialogues (with ministers of foreign affairs and defence from both countries). In addition, they set up the India–Japan Act East Forum.

India and Japan are also members of the Quadrilateral Security Dialogue (Quad), which comprises four countries: Australia, India, Japan, and the US. The Quad's primary goal is to foster a free, open, and prosperous Indo-Pacific region by collaborating on issues like security, trade, and disaster relief.

[5]See https://www.mofa.go.jp/s_sa/sw/in/page3e_000432.html

The Asia–Africa Growth Corridor (AAGC) is a partnership between India and Japan aimed at fostering economic development and connectivity between Asia and Africa. It focuses on four key pillars: development and cooperation projects, quality infrastructure and institutional connectivity, capacity and skill enhancement, and people-to-people partnerships. The AAGC aims to improve economic growth, expand trade, and transform the region into a growth corridor.

The Indo-Pacific Economic Framework for Prosperity (IPEF) is an economic initiative launched by the US in May 2022. It aims to strengthen economic cooperation and integration within the Indo-Pacific region, focusing on four pillars: trade, supply chains, a clean economy, and a fair economy. The IPEF has 14 founding member nations including India and Japan. Both countries are also members of the IPEF Supply Chain Agreement, which came into force in February 2024. India and Japan are also members of the Group of Twenty (G20), the premier global forum for dialogue on economic issues.

The India–Japan CEPA is one of the most comprehensive such agreements signed by India, covering trade in goods, services, movement of natural persons, intellectual property, government procurement, competition, business environment, and cooperation. It has been in force since 2011 and targeted the abolition of tariffs on 94% of items over 10 years.

6. Strategic Engagement and India–Japan Economic Partnership

India and Japan have steadily deepened their engagement at the leaders' level given their shared concerns about the need to keep the supply chains in the Indo-Pacific region open and secure. The deepening political and strategic engagement in bilateral, regional, and multilateral forums, however, has not resulted in a deepening of economic partnership.

India–Japan trade

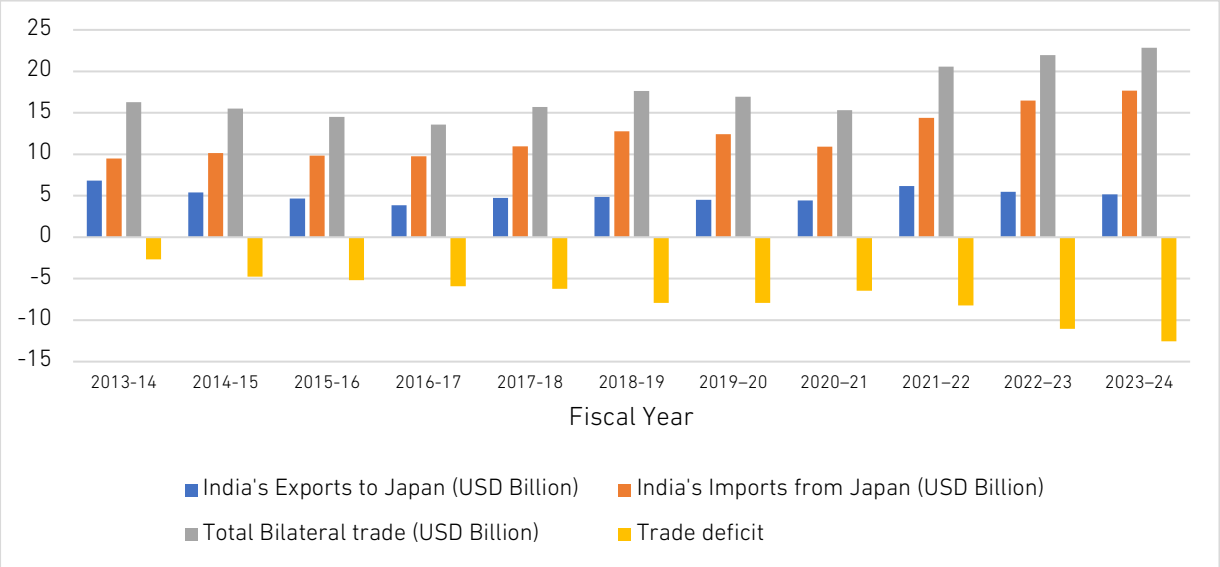
India's bilateral trade expanded from US$15 billion–US$16 billion per year a decade ago (in 2013–2014) to around US$22 billion in 2023–2024 (Table 4.2). However, the growth largely represents rising imports to India from Japan, up from around US$9 billion–US$10 billion around 2013–2014 to around US$17 billion in 2023–2024. India's exports to Japan have fallen in absolute terms from around US$6 billion per year in 2013–2014 to US$5 billion a decade later. As imports have grown while exports have declined in absolute terms, the trade deficit widened from US$2.67 billion in 2013–2014 to US$12.54 billion in 2023–2024 (Figure 4.3).

Table 4.2: Trends in India's Bilateral Trade with Japan, 2014–2024

Fiscal Year	India's exports to Japan (US$ billion)	India's imports from Japan (US$ billion)	Total bilateral trade (US$ billion)	Trade deficit (US$ billion)
2013–14	6.81	9.48	16.29	-2.67
2014–15	5.38	10.13	15.51	-4.75
2015–16	4.66	9.85	14.51	-5.19
2016–17	3.85	9.75	13.60	-5.90
2017–18	4.73	10.97	15.71	-6.24
2018–19	4.86	12.77	17.63	-7.91
2019–20	4.52	12.43	16.95	-7.91
2020–21	4.43	10.90	15.33	-6.47
2021–22	6.18	14.39	20.57	-8.21
2022–23	5.46	16.49	21.96	-11.03
2023–24	5.15	17.69	22.85	-12.54

Source: Institute for Studies in Industrial Development (ISID) compiled from the Ministry of Commerce and Industry Database (https://tradestat.commerce.gov.in/)

Figure 4.3: India–Japan Bilateral Trade 2014–24



Source: Author based on Table 4.2 above.

India's primary exports to Japan are petroleum products; organic chemicals; fish and crustaceans, molluscs, and other aquatic invertebrates; nuclear reactors, boilers, machinery and mechanical appliances, parts thereof; vehicles other than railway or tramway rolling stock, and parts and accessories thereof; etc. India's primary imports from Japan are machinery, electrical machinery, iron and steel products, plastic materials, non-ferrous metals, parts of motor vehicles (Ministry of External Affairs, 2023).

Japan's share in India's total imports of electronic products as well as automobiles has fallen, while the share of China, ASEAN, and Korea has risen.

A detailed analysis of the India–Japan CEPA by Seshadri (2023) found that India's exports to Japan initially rose in the first few years after the agreement, with Japan's share in India's exports increasing from 2.04% to 2.17%. However, this share gradually declined to just 1.2% by 2022, while Japan maintained a stable share of around 2.3% in India's imports. Indian products that gained from the CEPA include fish items such as shrimps and fish meat, organic chemicals, ferro alloys, dyes and pigments, woven garments, and castor oil. Yet, the CEPA failed to boost exports of garments, footwear, and leather products. Moreover, Japanese regulatory standards prevented Indian exporters from fully utilising CEPA preferences in pharmaceuticals, vegetables, fruits, sesame seeds, and fish products. Article 13 of the CEPA on Economic Cooperation was also underutilised, missing an opportunity to enhance product quality and help Indian exporters meet Japan's stringent market specifications and standards (Seshadri, 2023).

In other words, the potential for mutually beneficial trade between India and Japan, especially for India's exports, remains untapped despite a functional India–Japan CEPA. There is an urgent need for diversification of the products that India exports, especially labour-intensive products such as textiles and garments, leather goods and footwear, processed foods, gems and jewellery, furniture, and toys, amongst others, which Japan imports in very large quantities from China but minimally from India. Japan imports apparel worth around US$30 billion per year, nearly 60% of which is imported from China, 15% from Viet Nam, 5% from Bangladesh, and 5% from Cambodia. India's share is less than 1% of Japan's apparel imports.[6] Supply chain diversification should focus on these labour-intensive sectors, among others, where India has a comparative advantage.

In sum, the reshoring of supply chains by Japanese companies to India has yet to gain momentum – despite the growing strength of the bilateral partnership, a functional CEPA, India's large and expanding market and skilled workforce, improving infrastructure and business climate, government incentives on both sides, and favourable JETRO survey findings.

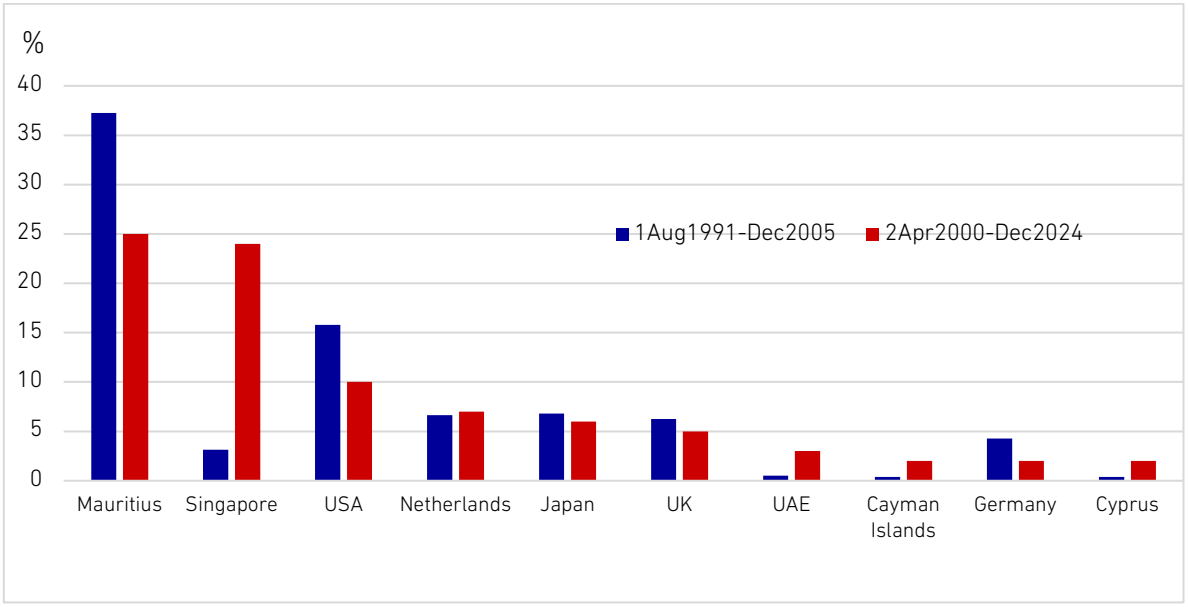
Japanese FDI inflows

FDI inflows are key to supply chain restructuring. Japan has been an important source of FDI inflows globally and to India. Japan has been the fifth-largest source of FDI to India (Figure4.4). Japanese FDI between 2000 and 2024 totalled $43 billion (Ministry of Commerce and Industry, 2025). Japan's share in the total FDI of US$667 billion received during the period is 6.4%. Figure 4.5 shows that FDI inflows from Japan have fluctuated

[6] https://www.cheersagar.com/blog-detail/japans-apparel-imports-the-indian-prospect

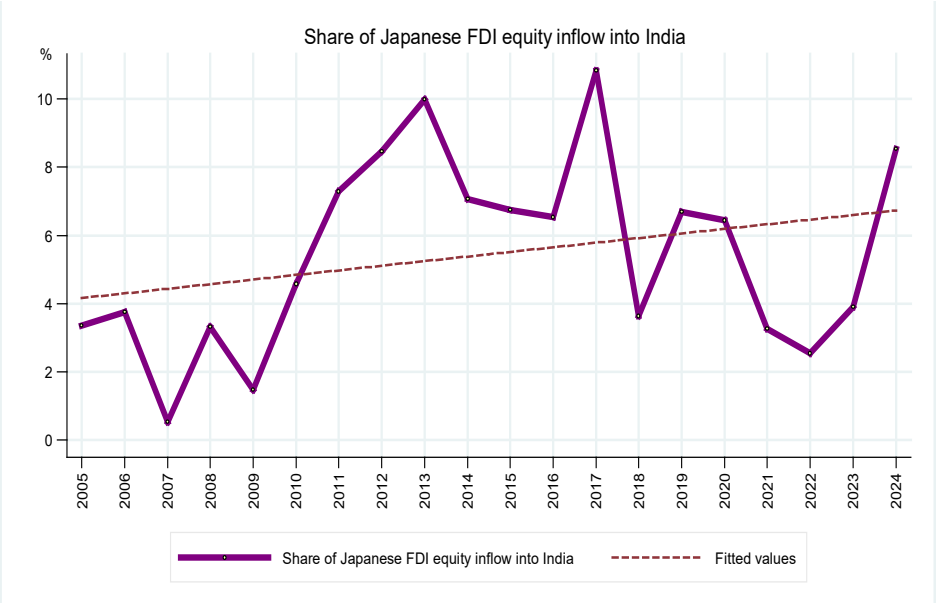
along a rising trajectory. Although the share in FDI, at 6%, is better than Japan's share in India's trade, it is still below its potential as a major source of FDI globally.

Figure 4.4: Top Sources of FDI to India, 1991-2024



UAE = United Arab Emirates, UK = United Kingdom, US = United States.
Source: Institute for Studies in Industrial Development (ISID) based on Indian Department for Promotion of Industry and Internal Trade (various years), FDI Statistics. https://dpiit.gov.in/publications/fdi-statistics (accessed 24 April 2025).

Figure 4.5: Trends in Share of Japan in FDI Inflows received by India, 2005–2024



FDI = foreign direct investment.
Source: Institute for Studies in Industrial Development (ISID) based on Indian Department for Promotion of Industry and Internal Trade (various years), FDI Statistics. https://dpiit.gov.in/publications/fdi-statistics (accessed on 24 April 2025).

Despite the relatively subdued performance in terms of the magnitude of Japanese FDI inflow, several Japanese companies have made India an important part of their global value chains. For instance, Suzuki Motor Corporation's Indian subsidiary, Maruti-Suzuki India Limited, is a crucial part of the company's global operations, serving as a major production and export hub, especially for passenger vehicles. After Japan, India is Suzuki's second-largest market, with cumulative production exceeding 30 million vehicles. Maruti-Suzuki is also the largest passenger vehicle exporter in India, contributing significantly to global exports. In 2024, the company achieved an all-time high export volume of four-wheel vehicles, at 326,000 units – an increase of 121% over the previous year. India is becoming increasingly important, not just as a production hub but also as a centre for global exports, including to Europe, Japan, and South America (Sachdev, 2025). Suzuki is increasing its production capacity in India to double down on a market that contributes more than 60% to its global production. In FY2023, Maruti Suzuki accounted for 41% of Suzuki's global revenue and 45% of its profitability (CNBCTV 18, 2023).

Similarly, Toyota's India operations, primarily through Toyota Kirloskar Motors, are a vital part of its global strategy, playing a significant role in both the Indian market and as a manufacturing hub for global exports. India is a high-priority market for Toyota and is now integrated into the Middle East, East Asia, and Oceania region, acting as a regional hub. Toyota Kirloskar Motor, with plants in Karnataka and Tamil Nadu producing vehicles and components, has been expanding in India, aligning its operations with national priorities like skill enhancement, localisation, and ecosystem development. Toyota has a Global Business Services Centre in Bengaluru, a significant hub for Toyota's global research and development. Toyota Kirloskar Auto Parts supplies transmissions for global requirements. Toyota India has a strong export focus, with cumulative export contributions exceeding INR320 billion, indicating its role as a global supplier (Toyota, 2023).

Daikin India is a wholly owned subsidiary of Daikin Industries Ltd., a global leader in air conditioning and refrigeration. It plays a crucial role in Daikin's global operations, particularly in the Indian market, which Daikin sees as one of its fastest-growing markets. Daikin India focuses on the manufacturing, sales, and service of air conditioning systems, and has a dedicated research and development centre for developing products tailored to the Indian climate. Daikin India envisions itself as a key component of Daikin's global organisation, with a focus on innovation, people, processes, manufacturing, products, and technology. Daikin has a long-term investment strategy in India and plans to expand its manufacturing base to make it a hub for the Middle East and Africa markets (Daikin India, 2016; *The Economic Times*, 2023).

7. The Way Forward for Leveraging India–Japan Economic Partnership for Supply Chain Restructuring

To sum up the above discussion, the very high domination of global supply chains for a vast range of traditional and sunrise industries by one country presents important strategic threats and vulnerabilities. Leading industrialised countries are seeking to restructure their supply chains, including through industrial policy. With its large and fast-growing market, abundant skills base, fast-improving industrial and logistics infrastructure, supportive government policy including through the Make-in-India and PLI schemes, and vibrant relations in the West as well as the East, India is rapidly emerging as a favourite destination for reshoring of supply chains by global companies, as demonstrated by its emergence as the second largest base for the assembly and export of mobile phones in recent years.

India could also be an important base for the supply chain reshoring of Japanese companies, given the deepening strategic engagement of the two governments, their shared democratic values, and complementary demographics, specialisation, and resources. Successive political leaderships of the two countries have progressively deepened their engagement and created a supportive institutional framework for deepening economic partnership, including the comprehensive India–Japan CEPA signed in 2011.

Yet the results on the ground suggest that the potential of economic partnership and supply chain restructuring is yet to be tapped. Japan's share in India's trade has been falling, especially in India's exports, despite the CEPA. Although the JETRO surveys corroborate that Japanese companies consider India the most promising and profitable market, Japanese FDI accounts for only 6% of total FDI inflows received by India since 2000.

What can be done to tap the potential of India–Japan economic partnership for supply chain restructuring? A few thoughts are offered below as a way forward.

- Create an India-focused dedicated fund to support Japanese FDI in India under the Supply Chain Diversification Programme: Although investments in India are eligible for support under the US$2 billion Supply Chain Diversification Programme, the bulk of the funding has gone to support investment projects in Viet Nam and other ASEAN Member States. A separate India-focused fund of US$2 billion to incentivise investment in India could be earmarked and replenished once exhausted. This fund could have two windows: (i) for labour-intensive industries (e.g. textiles and garments, footwear, toys, food processing, and furniture), which could benefit micro, small, and medium-sized enterprises (MSMEs) as they integrate with the supply chains of Japanese companies; and (ii) for sunrise sectors (e.g. electronics and semiconductors,

solar PV, advanced batteries, EVs, electrolysers, wind turbines, machine tools, machinery, ship building and other heavy industries). The creation of an India-focused fund would also indicate to Japanese companies the priority that the Japanese government and the leadership attach to deepening economic partnership with India.

- Review of India–Japan CEPA to make it effective: The India–Japan CEPA was signed with the expectation that it would help to tap the potential of India–Japan economic partnership, especially by facilitating supply chains restructuring to India to help Japanese companies produce in India for local and global sourcing, particularly in labour- and skill-intensive sectors. However, that potential is far from being exploited. The two governments need to urgently conduct a review of the CEPA in consultation with businesses in both countries to identify problem areas that prevent it from fulfilling its potential. Such a review could identify the non-tariff and process-oriented barriers that Indian exporters face in exporting labour-intensive goods (e.g. textiles, garments, and processed foods) to Japan, and recommend the need for capacity building, especially of MSMEs, to comply with those standards. The CEPA's chapter on Economic Cooperation has provisions for such capacity-building support and should be leveraged for this purpose.
- Targeting of Japanese companies by Indian investment promotion agencies: Even though a dedicated window has been provided to Japanese investors at Invest India, India's investment promotion agency, FDI inflows from Japan have not been commensurate with India's potential. Hence, proactive targeting may be necessary. Invest India should conduct a survey of Japanese multinational companies that do not have operations in India and identify those that specialise in India's priority sectors (such as those identified above). These companies could include firms that export to India but do not have production bases in the country. They could also include retail giants such as Daiso, which could help to develop a vendor base of Indian MSMEs, helping them to integrate into global supply chains.
- Fostering policy research on India–Japan supply chain restructuring: The criticality of supply chain diversification, especially in the context of the global trade policy uncertainties and incipient Trump tariffs, requires sustained efforts aimed at understanding the emerging opportunities and highlighting the policy measures to realise them in a mutually beneficial manner. This gap could be filled through the creation of centres of advanced policy research on India–Japan economic partnership and supply chain resilience in India and Japan. This could be done by instituting collaborative research programmes (or research chairs) at a few select policy research institutions in India and Japan focused on the manufacturing sector and supply chain restructuring.

In summary, strengthening supply chain resilience is vital given their current heavy dependence on a single country. The India–Japan economic partnership holds the potential to create alternative supply chains by leveraging complementary strengths and synergies, while also supporting India's economic development and generating

decent jobs for its youthful workforce. The time has come to harness the deepening strategic partnership between the two countries to build supply chains that serve not only their mutual interests but also the global economy at large.

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