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India's Readiness for the Regional
Comprehensive Economic Partnership
Through the India–Japan Partnership

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India's Readiness for the Regional Comprehensive Economic Partnership Through the India–Japan Partnership

Ranti Yulia Wardani*

Graduate School of International Relations, International University of Japan, Niigata, Japan.

*Correspondence: ranti.yulia.wardani@gmail.com

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Abstract

India and Japan are engaged in a strategic and comprehensive economic partnership. However, some major powers have different interests that may delay the conclusion of the Regional Comprehensive Economic Partnership (RCEP). India and Japan were among the 14 countries that initially joined the RCEP, but India has since opted to stay out, pending resolution of outstanding issues. This study aims to examine the India–Japan strategic partnership in the development of the RCEP and measure the saving potential of the India–Japan Comprehensive Economic Partnership Agreement, employing an ex-ante analysis with scenarios based on zero tariffs. These political and economic partnerships play an essential role for both countries at the regional level. India and Japan have good economic and political relations that could enhance the feasibility of India rejoining the RCEP. The results of the saving potential analysis show that both countries have gained benefits from the economic partnership.

Keywords: ASEAN; RCEP; Political economy; Free trade agreement; Saving potential.

1. INTRODUCTION

The Association of Southeast Asian Nations (ASEAN), together with the six ASEAN free trade agreement (FTA) partners, including Japan and India, initiated the development of the Regional Comprehensive Economic Partnership (RCEP) in 2011. According to the 2018 World Bank data, the RCEP's 16 member countries contribute 31.2% of the world's gross domestic product (GDP), while the 10 ASEAN member countries account for 3.3%. China, Japan, and India are the three largest economies among the RCEP member countries, contributing 13.1%, 7.5%, and 3.4% of the world's GDP, respectively. These economically powerful countries play and will continue to play an essential role in the RCEP, by influencing its position both economically and politically. This study focuses on the relations between Japan and India, which are the major countries that played an important role in the formation of the RCEP.

The formation of a mega-regional FTA has become an important agenda for the major countries in setting their strategic movements in the arena of international politics. While the ASEAN has been central to the formation of the RCEP, the existence of the major powers within the RCEP has become a challenge to conclude the agreement, with China, India, and Japan, each pursuing their own interests in the negotiations. Each major power involved in the negotiations has a bargaining power position.

There are no bilateral strategic partnerships as broad and as deep as those between Japan and India in the entire Indo-Pacific area (Naidu and Yasuyuki, 2019). While both countries have common interests, they also have some unique interests. For example, India has higher tariffs than Japan. RCEP members have encouraged India to commit to eliminating tariffs on up to 92% of products (FE Bureau, 2018). The RCEP aims to minimize the level of variation and seeks to reduce more than 90-95% of tariffs (Basu Das, 2016). India

wants the RCEP agreement to include not only goods but also services, and has proposed that the RCEP members open up to skilled labor as part of the agreement (Mishra, 2018).

Based on the joint leaders' RCEP statement on November 4, 2019, India decided to stay out of the RCEP until the body's outstanding issues have been resolved (ASEAN Secretariat, 2019). India's final decision to join the RCEP will be based mainly on whether the progress in negotiations is satisfactory. India is also wary of the agreement owing to its trade deficits with both China and Japan. India has maintained good relations with other countries, such as Japan, in terms of geopolitics and geoeconomics in support of its outward-looking stance. The RCEP is an opportunity for India to realize its "Look East" policy (LEP) and "Act East" policy, together with its alliances with Japan, New Zealand, and Australia. India–Japan relations have essential elements that can motivate India to remain a part of the RCEP.

Several studies have analyzed the relations between Japan and India from the economic and political perspectives, such as their history of bilateral relations, strategic partnership, and strategic defence partnership (Garge, 2016; Naidu, 2007; Naidu and Yasuyuki, 2019). Das (2014) examined essential trade coverage modalities, sensitive lists, and rules of origin formulation from the point of view of the India–Japan Comprehensive Economic Partnership Agreement (IJCEPA). Joshi and Pant (2015) investigated how the power transition in Asia has generated common challenges and opportunities for Japan and India's strategic partnership, and revealed a logical path for a hedging strategy. Scholars have utilized several methods to quantify the implication of the FTAs. Some have measured the economic implications of the FTAs using the computable general equilibrium (CGE), dynamic Global Trade Analysis Project (GTAP) analysis, and econometric models (Cheong and Tongzon, 2013; Fukunaga and Isono, 2013; Itakura, 2014; Li *et al.*, 2016, 2017).

Plummer *et al.* (2010) explained the limitations of ex-ante economic assessments of the FTAs, including trade indicators, the GTAP, and the CGE model. Plummer *et al.* (2010) described the limitations of the GTAP model as follows: (1) the limitation of data and the low capability of the researcher to model a particular trade policy, (2) including too many parameters that lead to difficulty in estimation and validation, and (3) consisting of presuppositions that may not demonstrate real-world characteristics. Plummer *et al.* (2010) cited a number of problems while using the CGE analysis as follows: (1) the CGE analysis requires large-scale data, and particular data items are arbitrarily chosen frequently by the modeler, (2) the model's outcome may be very sensitive to the supposition and data used, and (3) the CGE analysis does not have enough time dimension.

The saving potential analysis measures the export tariff reduction of each export item. The saving potential is the total size of the export tariff that would be paid by exporters if there is no tariff-reduction agreement between the exporting and the importing country. Academic research using this measure is useful to exporters or business stakeholders as it will help them to do business with other countries. Policymakers also need to consider diversification of the products that could potentially be exported, and the FTA saving potential assessment offers results that are useful for identifying suitable export products. The saving potential analysis can thus overcome some of the disadvantages of the above-mentioned ex-ante analyses.

Nevertheless, some scholars have quantified the implications of the FTAs based on the saving potential from tariff reduction. Those that have done so have utilized saving potential analyses, such as the saving potential of the FTAs between Switzerland and some Asian countries, the Middle East, the United States, China, Brazil, and Taiwan, and the saving potential of the RCEP between China–Japan and China–India (Wardani and Cooray, 2019a, 2019b; Ziltener, 2015, 2016a, 2016b, 2017; Ziltener and Blind, 2015).

Hence, there is a research gap on the relations between Japan and India, from the lens of their strategic partnership, in examining their attitudes toward the formation of the RCEP, and in quantifying the saving potential of the IJCEPA. The RCEP has faced many challenging negotiations over policy due to different interests of the major countries at the negotiation table. This study seeks to answer the following questions: (1) How does the India–Japan strategic partnership enhance the feasibility of India remaining in the RCEP formation? and (2) What is the size of the saving potential to be realized from the IJCEPA?

This study examines the variables influencing the development of the RCEP. Based on the use of Japan and India as the units of analysis, there are two essential arguments in this study. First, the strategic partnership between Japan and India has positive effects on the development of the RCEP. Secondly, the IJCEPA could be an important factor in India's future decision to remain within the RCEP.

The rest of this paper is organized as follows. Section 2 provides an overview of the existing literature on the political and economic relations between Japan and India. Section 3 describes the analytical framework for examining the impact of the strategic partnership between Japan and India on the development of the RCEP; this section also describes the saving potential of the India–Japan FTA by considering the basic agreement of the IJCEPA. Section 4 presents a 10-year projection of total savings by using scenarios of export growth and utilization rate analysis. Section 5 concludes and discusses the limitations of the study as well as future research suggestions.

2. LITERATURE REVIEW

2.1. India–Japan Political and Security Relations

After World War II, a peace treaty was signed, and diplomatic relations were established between India and Japan on April 28, 1952 (Ministry of Foreign Affairs of Japan, 2018). The bilateral relationship between India and Japan has been driven by privatization, globalization, and liberalization in post-cold war world and has progressed step-by-step to balance the rising forceful behavior of China in the region (Ranjan, 2017). Garge (2016) stated that there are two essential elements in Japan and India's bilateral relations from an historical perspective. First, Japan is conscious of India's position in the Indian Ocean and aware of its pivotal role in the homogenization of the Indian and Pacific oceans. Secondly, India perceives Japan as a great Asian naval power and a prospective source of investment, particularly with advanced technological assistance.

Security and cooperation have become a crucial aspect of the strategic partnership between the two countries. Japan and India signed a joint declaration on security cooperation in October 2008, the first important security cooperation document signed by India with any other country (Ministry of External Affairs Government of India, 2011). In December 2013, the Japanese Navy conducted its first joint maritime exercise with the Indian Navy in the Indian Ocean territory (Joshi and Pant, 2015). In October 2018, Japan and India's bilateral maritime exercise (JIMEX-18) was conducted for the second time at Visakhapatnam (Ministry of Defence, Government of India, 2018). In addition, the United States has been involved in trilateral maritime exercises with the countries to strengthen interoperability and cooperation, based on common principles and values between the three navies (Indo-Asian News Service, 2019). This collaboration has expanded to involve Australia and has emphasized the centrality of the ASEAN (Panda, 2019).

Within the geopolitical contexts of India and Japan, important relations have developed with the other major powers, such as China and the United States, and as such, India's strategic partnership with Japan cannot be considered exclusively from other actors in the realm of international politics. India and Japan have maintained "special strategic and global partnership" that would describe the nature of the Indo-Pacific region (Basrur and Kutty, 2018). Apart from Japan's alliance with the United States, India has become its closest security partner, as India has decided to work toward a nonalignment policy (Naidu and Yasuyuki, 2019). India and Japan initiated a trilateral strategic partnership dialogue in 2011, to maintain the balance of power within the Asia-Pacific and Indo-Pacific regions (Rogin, 2011). The Free and Open Indo-Pacific (FOIP) strategy has become essential in international political interactions between India, the United States, Japan, and other Pacific actors in the Indian Ocean. The United States, under President Donald Trump, has constructed the US FOIP strategy based on three pillars—economics, security, and governance (Parameswaran, 2019). Indonesia has proposed an ASEAN outlook and an Indo-Pacific spirit to avoid taking sides in the competition between the major powers, and to accommodate all interests (Laksmna, 2018). Australia, India, Japan, and South Korea, as the ASEAN's partners, have expressed support for Indonesia's ASEAN outlook (Yasmin, 2019).

Nevertheless, the presence of India in the RCEP not only helps China to counterbalance the United States in the Asia-Pacific, but also checks India's forward-looking policy for the region (Panda, 2017). India plays a crucial role in China's Maritime Silk Road (MSR) project, as without India, the MSR would have far fewer benefits (Li, 2018). The Chinese President Xi Jinping and Indian Prime Minister Narendra Modi have held bilateral meetings and expressed determination to address specific issues related to the military, aiming to intensify communications to build understanding and trust (timesofindia.com, 2018).

Yamaguchi and Sano (2016) suggested maintaining India–Japan security cooperation such that it is not perceived by China as a way to contain it but to intensify the links between India's LEP and Japan's effort to align with the international cooperation principle, so that both countries can extend common strategies and policy priorities. Japan and India have built relations within the ASEAN, creating a valuable diplomatic platform that enables the major powers to sit together at a time of escalating geopolitical pessimism. The ASEAN has been a catalyst in the RCEP negotiations and has balanced its stance with non-ASEAN members (Fukunaga, 2015). The relations between the major countries, such as Japan, India, and China, have been important in the development of international institutions, such as the RCEP. Japan and India have maintained harmonious relations, yielding positive consequences for the development of the RCEP.

2.2. India–Japan Economic and Trade Relations

India has become an important economic partner of Japan, with India receiving the largest amount of Japanese official development assistance (ODA) among all developing countries. In 2017, India received US\$1.554 billion, 19.2% of the total amount received by developing countries (Organisation for Economic Co-operation and Development, 2019). Japan has become the third biggest investor in India with total foreign direct investment (FDI) of US\$25.2 billion between 2000 and 2017, or 8% of India's total FDI (Kesavan, 2019).

Japan and India's FTA has helped to reduce and eliminate high tariff barriers. While there are some benefits of trade liberalization, in reality, restrictions on trade are still applied in some countries, especially in the labor-intensive industries, such as textiles (Kalirajan, 2007). For Japan, this has meant that exporters have more opportunities to increase their sales to India, and firms have opportunity to authorize associate and subordinate companies in India to obtain components and parts more easily (Urata and Ando, 2016). Furthermore, as a result of the FTA, India has agreed to strengthen its commitments relating to trade in services above those in the General Agreement on Trade in Services under the World Trade Organization (WTO). In particular, India has committed to liberalize FDI in retail services. Japanese-Indian relations have also contributed to education, FDI in urban infrastructure and railways, labor exchange, trade, and capital flows (Kapur and Lamba, 2016).

Trade is one of the essential dimensions for cooperation, and both countries could expand trade cooperation freely in regional arenas and cooperate bilaterally for India's food security, which is a sensitive issue in trade liberalization (Kitaoka and Kumagai, 2016). The two countries also have demographic and economic complementarities, which create room for further cooperation. India has a young and increasing population, whereas Japan has an aging and declining population. Japan has a comparative advantage in terms of technology and manufacturing, while India has a comparative advantage in terms of services.

Japan has a high-quality standard for the products that would be consumed by Japan's market, and India's exporters or business stakeholders have learned how to penetrate their products into Japan's market. Japan and India have agreed to improve the business environment of both countries (Ministry of Commerce and Industry-Government of India, 2014). The FTA sets out the establishment of a subcommittee to supervise business, address and resolve issues, and make recommendations based on findings for implementation. This has helped to improve the business environment and support economic growth in both countries. The India–Japan Business Leaders' Forum in 2018, provided some recommendations to the governments of both countries, including increasing economic exchange by utilizing the IJCEPA to improve the business environment, maintaining and reinforcing global economic partnerships, such as by concluding the RCEP swiftly, and realizing growth through strategically crucial areas (Keidanren, 2018).

For India, the RCEP would be a valuable opportunity to boost economic growth through participation in regional production networks in the Asia-Pacific region (Kitaoka and Kumagai, 2016). RCEP negotiations have been based on consensual decision-making, during which member countries have discussed their differences and attempted to be more flexible in achieving common end-goals (Basu Das, 2013). Throughout the RCEP's development, India has had opportunities to adapt it to its own interests. For example, the RCEP has accepted India's interest in the liberalization of the services market and has accommodated moves toward reducing tariffs on specific sensitive items with China (Mishra, 2018).

Some scholars have argued that an FTA between Japan and India could support the conclusion of the RCEP. Japan and India could accelerate the conclusion of the RCEP negotiations, because this agreement would enable FDI in a business-friendly environment involving the 16 RCEP member countries (Urata and Ando, 2016). A bilateral FTA between Japan and India would be a good structure to build consensus over contentious technical trade issues within the RCEP negotiations (Das, 2014). The India and Japan strategic partnership in terms of economic partner would further enhance its mutual benefit through the RCEP. China wants to expand its role in this multilateral system of the regional economic cooperation not only by participating but also by executing and formulating the trade rules. Therefore, to balance China's conduct in the RCEP, India and Japan could tighten their stance together in this mega-trade deal.

2.3. India, Regarding the RCEP Deal

As one of the major power countries, India's foreign policy has important implications for regional trade arrangements such as the RCEP. In 1991, India began to implement an outward-looking LEP under the Narasimha Rao government to enhance economic integration, to build security cooperation and to develop its political network (Haokip, 2011). In 2014, Prime Minister Narendra Modi upgraded this to an "Act East" policy, which is more action-oriented and considers the dynamics of economics and security (Palit, 2016). The emergence of India's outward-looking policy was forced by changes in the economics of international relations, the increasing amount of regional economic integration, and Chinese conduct in the Asia-Pacific region. The RCEP formation is a mechanism for India to implement its outward-looking policy in the realm of international politics and economy. China has been eager to join in the multilateral trade arrangement to expand regional integration and broaden trade liberalization, to increase production, strengthen supply chain networks, increase exports, and support domestic reform and its policy framework. China is seeking to becoming a prominent global country, and wants to maintain its influence by rebalancing trade relations in Asia.

Dutta (2019) outlined five reasons as to why Prime Minister Narendra Modi withdrew from the RCEP: economic slowdown, India's trade deficit, the oppositional stance of farmers and industries in India, concern over China's exports to India, and previous FTAs failing to achieve optimum benefits. Furthermore, domestic political parties, namely Bharatiya Kisan Sangh and Swadeshi Jagran Manch, affiliated with Rashtriya Swamsevak Sangh, pushed Prime Minister Narendra Modi to withdraw from the RCEP (Anuja and Roche, 2019). The main reason for India not to deal with the RCEP is its trade deficit with China.

India has comparative advantages in terms of its services sector and a high number of skilled workers, which could be part of its strengths to be shared in the RCEP development. India proposed to link services to the RCEP agreement, and other participating countries agreed. However, India opted to withdraw from the RCEP due to domestic interests that strongly urged India to withdraw. This decision was somewhat in contrast with India's "Act East" policy, which has sought to increase economic and security integration in the region. In particular, India's "Act East" policy was formulated to maintain relations with ASEAN as a central point of opposition to Chinese conduct in the Indo-Pacific and the South China Sea. Asian market has potential growth for economy compared with the US and the European market. The RCEP trade deal framework could accelerate India's economic development if India remains with the RCEP formation. The RCEP framework would be potentially benefited by China in building its supply chain and production networks, which make other countries outside the RCEP difficult to catch up with the ongoing deal in the future. World Integrated Trade Solution (WITS) (2018) data shows that China is the third biggest export partner for India. It would give more opportunities for India to expand its potential through the RCEP deal.

3. SAVING POTENTIAL OF IMPORTS TO JAPAN AND INDIA

3.1. Methodology

The saving potential analysis has been used to measure the potential benefits of the FTAs. The saving potential is the amount in tariffs that has to be paid by the exporters of WTO member countries to the other trading partners that could be reduced by the FTAs (Ziltener, 2016b). The most favored nation (MFN), a status of applied tariff rates of one country to another country for international trade purposes, is used to calculate the saving potential of export tariffs. The WTO uses the harmonized system (HS) code as a standard code for

international trade export tariffs. This study refers to the six-digit HS code to measure the saving potential for Japan and India.

$$D\% = \frac{Dt}{Tv}$$

D% is the duties percentage. Total duties (Dt) value was calculated in two steps. First, each duty was multiplied by the trade value based on each HS code at the six-digit level. Second, all the duties values (Dt) were summed. The total trade value (Tv) was calculated by summing all the export commodities based on the HS code at the six-digit level.

$$SP(n) = Tv \times (1 + Gr)^{(n-1)} \times \left(\frac{D\%}{Dty} \right) \times (n) \times (Utr)$$

Saving potential (SP): saving potential in year (n).

Trade Value (Tv): the total value of export trade.

Duties % (D%): duties percentage.

Utilization rate (Utr): what percentage of the FTA will be successfully utilized (scenario-based).

Dismantling tariff year (Dty): the scenario for how many years tariff will be dismantled.

Growth (Gr): export growth.

This study uses the method developed by Ziltener (2016b) to measure the saving potential of an FTA between Japan and India, with cross-sectional data on exports and imports in 2017. The 2017 total duties of country A1 on exports to B1 are multiplied by B1 WTO (2018) MFN applied rates for the six-digit HS code. This study uses the HS six-digit tariff lines as there is a limitation on accessing data based on HS eight-digit tariff lines for India and HS nine-digit tariff lines for Japan. Export data are obtained from the UN Comtrade (2018) website. This study uses maximum tariff reduction for all tariff lines as one of the scenarios of the model, in which the IJCEPA reduces all tariffs to zero. India has committed to reducing up to 86.38% of tariff lines to zero, and Japan has committed to reducing up to 86.82% of tariff lines to zero. Four clusters of export commodities are excluded from the saving potential calculations: HS codes 71, 93, 97, and 99. These four clusters include some commodities, such as cultured pearl, imitation jewelry, precious metal, arms and ammunition, works of art, and antiques and commodities, which have no detailed specification or comparable type.

3.2. India–Japan Potential for Tariff Reduction

The IJCEPA was signed on February 16, 2011 (Ministry of Foreign Affairs of Japan, 2011), describing detailed commitments to tariff reductions for both Japan and India. The agreement provides some custom classifications for goods (Ministry of Commerce and Industry-Government of India, 2014). Classification A means that tariff lines will be eliminated on the date of entry to the agreement. Classification B5 means that tariff lines will be eliminated in six equal yearly installments from the base tariff line. Classification B7 means that tariff lines will be eliminated in eight equal yearly installments from the base tariff lines. Classification B10 means that tariff lines will be eliminated in 11 yearly installments from the base tariff lines. Classification B15 means that tariff lines will be eliminated in 16 equal yearly installments from the base tariff lines. Classifications under Pa and Pb mean that tariff lines will be eliminated according to the specific terms and conditions that were set. Classification under X means that tariff lines will be excluded from any customs duty elimination commitment based on the IJCEPA.

Table 1 shows that India committed to eliminating tariffs on up to 86.38% of all tariff lines based on the HS eight-digit level. Japan committed to eliminating tariffs on up to 86.82% of all tariff lines.

3.3. Exports from India to Japan

The saving potential is calculated according to each cluster. This makes it easier for exporters or policymakers to understand the saving potential of each export commodity.

Table 1. India–Japan Tariff Reduction Commitments.

Tariff Classification	HS Eight-digit Tariff Lines for India	Percentage of Total Tariff Lines	Tariff Classification	HS Nine-digit Tariff Lines for Japan	Percentage of Total Tariff Lines
A	2074	18.37	A	7141	78.98
B10	7163	63.45	B10	622	6.88
B5	509	4.51	B15	41	0.45
B7	2	0.02	B7	45	0.50
X	1538	13.62	X	1192	13.18
Not specified	1	0.01	Not Specified	–	–
Special case	2	0.02	Special Case	–	–
Total	11289	100.00	Total	9041	100.00

Source: Seshadri (2016).

Table 2. Saving Potential for India's Exports to Japan, 2017 and 2018.

Commodities	HS Code	Trade Values 2017 (Thousand US\$)	Duties 2017 (Thousand US\$)	Trade Values 2018 (Thousand US\$)	Duties 2018 (Thousand US\$)
Animal and vegetable products	01-15	709,182	13,967	693,009	15,117
Foodstuffs	16-24	157,182	4,871	123,913	5,173
Mineral products	25-27	1,533,776	16,066	1,095,235	11,151
Chemicals and allied industries	28-38	869,881	15,377	1,038,145	16,954
Plastics/Rubbers	39-40	71,914	1,371	152,982	3,744
Raw hides, skins, leather, and furs	41-43	93,562	10,573	101,187	11,150
Wood and wood products	44-49	7,861	55	8,197	81
Textiles	50-63	420,383	31,317	457,904	33,745
Footwear/Headgear	64-67	50,281	10,269	52,336	12,186
Stone/Glass	68-70	20,563	52	27,843	82
Metals	72-83	385,082	3,996	562,064	4,432
Machinery/Electrical	84-85	301,939	30	356,599	136
Transportation	86-89	178,906	-	219,107	0
Miscellaneous	90-96	113,045	405	130,841	375
Total		4,913,556	108,351	5,019,363	114,328

Data source: UN Comtrade (2020) based on author's calculations.

Table 3. Japan's Tariff Range based on MFN Tariff Lines for India's Export Commodities, 2017 and 2018.

Commodities	Average Duties (%), 2018	Average Duties (%), 2017	Max (%), 2018	Max (%), 2017	Min (%), 2018	Min (%), 2017	Mod (%), 2018	Mod (%), 2017
Animal, Animal products and vegetable products	5	5	35	35	0	0	0	0
Foodstuffs	9	10	26	25	0	0	0	0
Mineral products	0	0	3	3	0	0	0	0
Chemicals & allied industries	2	2	17	17	0	0	0	0
Plastics/Rubbers	2	2	5	5	0	0	0	0
Raw hides, skins, leather & furs	14	14	24	24	4	4	24	13
Wood & wood products	2	1	8	8	0	0	0	0
Textiles	7	7	13	13	0	0	6	6
Footwear/Headgear	12	12	29	26	0	0	7	7
Stone/Glass	1	1	8	8	0	0	0	0
Metals	1	1	8	8	0	0	0	0
Machinery/Electrical	0	0	5	5	0	0	0	0
Transportation	0	0	0	0	0	0	0	0
Miscellaneous	1	1	9	9	0	0	0	0

Data source: WTO (2018) based on author's calculations.

The total value of India's export to Japan equals US\$4.9 billion in 2017 and US\$5 billion in 2018. The total saving potential for India's exporters to Japan's market equals US\$108.3 million in 2017 and US\$114.3 million in 2018 (Table 2). The mineral products commodity has the highest trade value of India's exports to Japan, at US\$1.534 billion in 2017 and US\$1.095 billion in 2018. The total duties for the mineral products category are US\$16 million in 2017 and US\$11 million in 2018. The second-largest commodity category for India's exports to Japan is chemicals and allied industries, equal to US\$869.8 million in 2017 and US\$1 billion in 2018. The total duties for the second-largest export commodity are US\$15 million in 2017 and US\$16.9 million in 2018. The third-biggest export commodity category is animal and vegetable products, with a trade value of US\$709 million in 2017 and US\$693 million in 2018, with total duties of US\$13.9 million in 2017 and US\$15 million in 2018.

Petroleum oils and oils from bituminous minerals accounted for the largest trade value in 2017 at US\$1.181 billion. This commodity is part of the mineral products category with a duty value of US\$15.6 million. In 2018, petroleum oils and oils from bituminous minerals accounted for the largest trade value at US\$841 million and a duty value of US\$11 million. In 2017, the second-largest commodity in terms of trade value was frozen shrimp and prawns, with a trade value of US\$340 million. This commodity is part of the animal and vegetables category with a duty value of US\$3 million. In 2018, the second-largest commodity was frozen shrimp and prawns with a trade value of US\$318 million and a duty value of US\$3 million. The third-largest commodity was iron ore and concentrates in 2017 with a trade value of US\$176 million (this commodity is not subject to tariffs), and aluminium in 2018 with a trade value of US\$197 million and zero duty value.

Table 4. Saving Potential for Japan's Exports to India, 2017 and 2018.

Commodities	HS Code	Trade Values 2017 (Thousand US\$)	Duties 2017 (Thousand US\$)	Trade Values 2018 (Thousand US\$)	Duties 2018 (Thousand US\$)
Animal and vegetable products	01-15	3,309	719	13,616	2,229
Foodstuffs	16-24	3,376	2,448	4,124	2,859
Mineral products	25-27	224,056	11,293	308,882	30,171
Chemicals and allied industries	28-38	1,128,157	87,327	1,571,161	156,557
Plastics/Rubbers	39-40	1,056,165	89,670	1,164,507	117,371
Raw hides, skins, leather, and furs	41-43	626	50	816	49
Wood and wood products	44-49	65,300	6,350	136,732	13,523
Textiles	50-63	126,573	11,993	142,571	29,135
Footwear/Headgear	64-67	351	35	1,426	278
Stone/Glass	68-70	109,503	10,553	141,829	14,183
Metals	72-83	1,903,036	176,653	2,411,140	296,600
Machinery/Electrical	84-85	3,835,002	250,685	4,707,307	386,022
Transportation	86-89	989,422	102,963	791,918	121,244
Miscellaneous	90-96	743,720	50,453	848,237	71,039
Total		10,188,597	801,194	12,244,265	1,241,260

Data source: UN Comtrade (2020) based on author's calculations.

Japan has a lower tariff range than India. Table 3 shows Japan's tariff range for India's export commodities, clustered into each commodity category. This table shows the comparison of tariff range in 2017 and 2018. In different years, India has different number of products to be exported to Japan. This comparison shows a slightly different tariff range. For example, the average tariff range for foodstuff cluster is 9% in 2018, and 10% in 2017.

3.4. Exports from Japan to India

Japan exports a larger trade value to India than India does to Japan, with the total trade value being more than double that of India's exports, after excluding HS code clusters 71, 93, 97, and 99. In general, India's import tariffs are higher than that of Japan. The total saving potential for Japan's exporters is US\$801 million in 2017 and US\$1 billion in 2018 (Table 4), while the total saving potential for India's exporters is US\$108 million in 2017 and US\$114 million in 2018.

The highest trade value for Japan's exports to India among the 14 export commodity clusters in 2017 is of the machinery/electrical commodity cluster, with a total trade value of US\$3.8 billion in 2017 and US\$4.7 billion in 2018. The total duty value for the machinery/electrical commodities cluster is US\$251 million in 2017 and US\$386 million in 2018. The second-highest trade value is of the metal commodity cluster, equal to US\$1.9 billion in 2017 and US\$2.4 billion in 2018. The total duty value for the metal commodity cluster is US\$176.6 million in 2017 and US\$296.6 million in 2018. The third-highest trade value is of the chemicals and

Table 5. India's Tariff Range Based on MFN Tariff Lines for Japan's Export Commodities, 2017 and 2018.

Commodities	Average Duties (%), 2018	Average Duties (%), 2017	Max (%), 2018	Max (%), 2017	Min (%), 2018	Min (%), 2017	Mod (%), 2018	Mod (%), 2017
Animal, animal products and vegetable products	46	34	100	100	10	5	30	30
Foodstuffs	50	46	150	150	26	5	30	30
Mineral products	10	5	10	10	5	3	10	5
Chemicals and allied industries	11	8	100	20	0	0	10	8
Plastics/Rubbers	10	9	15	10	3	0	10	10
Raw hides, skins, leather and furs	9	9	10	10	0	0	10	10
Wood and wood products	10	9	11	10	0	0	10	10
Textiles	16	6	30	10	0	0	25	10
Footwear/headgear	16	10	20	10	10	10	20	10
Stone/Glass	10	10	10	10	10	5	10	10
Metals	12	9	15	10	3	0	15	10
Machinery/electrical	8	7	20	10	0	0	8	8
Transportation	35	27	125	125	3	3	10	10
Miscellaneous	12	9	20	10	0	10	10	10

Data source: WTO (2018) based on author's calculations.

allied industries commodity cluster with a total trade value of US\$1.1 billion in 2017 and US\$1.6 billion in 2018. The total duty value for this cluster is US\$87 million in 2017 and US\$156.6 million in 2018.

The largest saving potential for Japan's exporters is for the machinery/electrical cluster, with total duties of US\$251 million in 2017 and US\$386 million in 2018; the second largest is for the metal commodity cluster, with total duties of US\$177 million in 2017 and US\$296 million in 2018; and the third largest is for the transport commodity cluster, with total duties of US\$103 million in 2017. The third-largest total duties in 2018 none is chemicals and allied industries commodity cluster with total duties of US\$156.6 million.

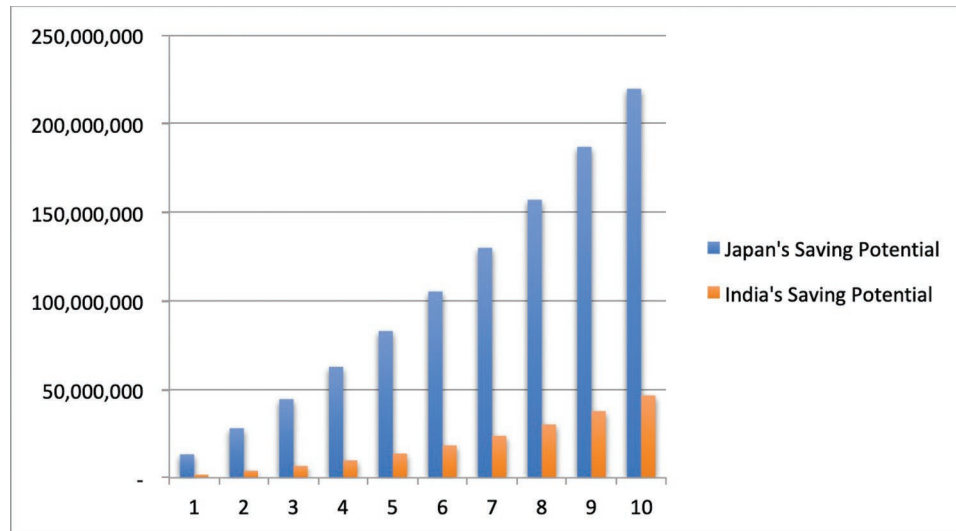
Table 5 shows India's tariff ranges for Japan's export commodities, which are higher than those of Japan. The import items or commodities from Japan were 2943 in 2017, and 3002 in 2018 according to the six-digit HS code level including all export commodity categories. Here, India's tariff range has been clustered into 14 export commodity categories.

4. MAXIMUM SAVING POTENTIAL ANALYSIS FOR ALL PRODUCTS

The following three scenarios show the maximum saving potential of an FTA for both Japan and India at different utilization rates. The dismantle tariff scenario is necessary to calculate the saving potential tariff reduction year-by-year up to 10 years, using a 20-year dismantle scenario calculation in the formula. The scenario includes export growth in calculating the saving potential, which is assumed to be 5.8% for Japan and 11.2% for India, based on averaged monthly growth rate data (CEIC, 2018).

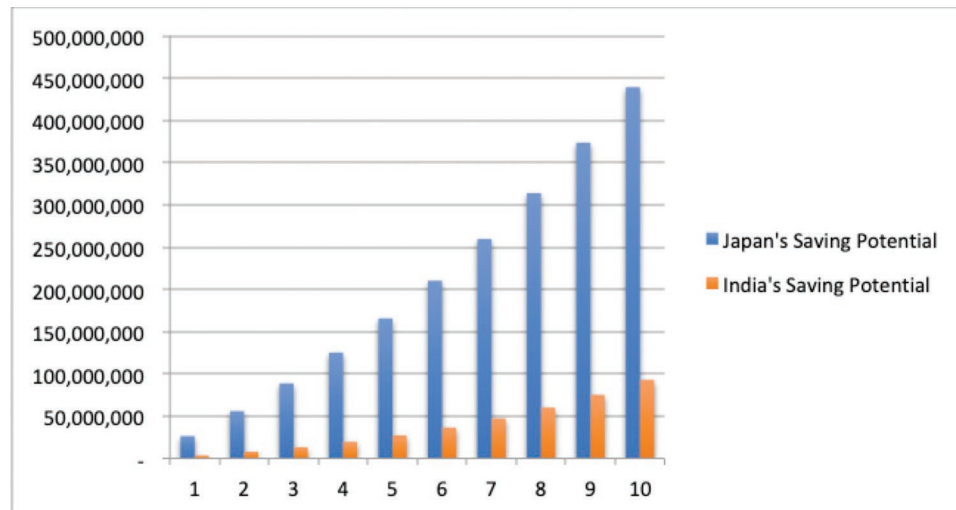
The saving potential in 2017, was used as a baseline for Japan and India's export projections over 10 years. The maximum savings potential for 10 years with a utilization rate of 33% is presented in Figure 1.

Figure 1. Maximum Saving Potential 10-Year Projection at 33% Utilization Rate.



Data source: UN Comtrade (2018) based on author's calculations

Figure 2. Maximum Saving Potential 10-Year Projection at 66% Utilization Rate.

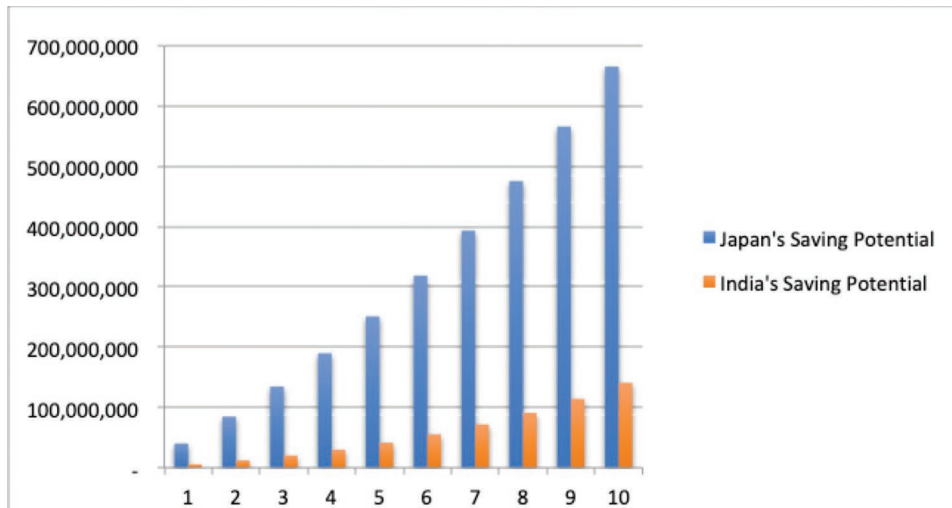


Data source: UN Comtrade (2018) based on author's calculations.

If Japan's exporters utilize the FTA at 33%, they may potentially save US\$82.82 million in year 5 and US\$219.58 million in year 10. Meanwhile, India's exporters may potentially save US\$13.67 million in year 5 and US\$46.48 million in year 10.

The maximum saving potential for 10 years with a utilization rate of 66% is shown in Figure 2. If Japan's exporters utilize an FTA at 66%, they may potentially save US\$165.64 million in year 5 and US\$439.16 million in year 10. India's exporters may potentially save US\$27.34 million in year 5 and US\$92.96 million in year 10.

The maximum saving potential for 10 years with a 100% utilization rate is shown in Figure 3. The results for the maximum 100% utilization are much greater than the other two scenarios with low and medium

Figure 3. Maximum Saving Potential 10-Year Projection at 100% Utilization Rate.

Data source: UN Comtrade (2018) based on author's calculations.

utilization rates. If Japan's exporters utilize an FTA at 100%, they may potentially save US\$250.97 million in year 5 and US\$665.39 million in year 10. India's exporters may potentially save US\$41.42 million in year 5 and US\$140.85 million in year 10.

5. CONCLUSION

This study examined the development progress of the RCEP formation based on two key arguments. First, the India–Japan strategic partnership has had a positive effect on the development of the RCEP. Secondly, the existence of the IJCEPA agreement plays an important role in India joining the RCEP formation by considering its saving potential. As a mega-regional FTA, the RCEP has encouraged major powers, such as Japan, China, and India, to engage with each other. While some scholars have studied India–Japan relations, few have examined both countries' relations and the saving potential of the IJCEPA within the RCEP framework.

Good relations among countries under a regional framework build a strong foundation for regionalism, which is an essential element in the creation of a mega-regional trade agreement. The good relations between Japan and India, preserved by the India–Japan peace treaty, matter in the geopolitical realm, especially in the development of the RCEP. Trade and security are the two most essential dimensions for India–Japan relations. The strategic partnership between the countries cannot be considered without reference to other parties in international politics, such as the United States and China. India, Japan, and the United States have maintained cooperation through trilateral maritime exercises, which have expanded to involve Australia. Meanwhile, China–India relations have their own dynamics, and their trade relationship may delay the conclusion of the RCEP. The strategic partnership between Japan and India has the potential to strengthen relations in wider political arenas, such as the RCEP. The presence of Japan along with its allies, Australia and India, in the RCEP formation, could strengthen the geopolitical landscape in the Indo-Pacific region. Furthermore, India and Japan as security partners could exert influence on China's conduct. Therefore, relations between India and Japan have essential elements to induce India to remain part of the RCEP.

The RCEP negotiations have gone through many rounds since 2012, and were substantially concluded in November 2019. Finally, on November 4, 2019, 15 RCEP member countries made a joint declaration to sign the RCEP in 2020. The RCEP members have encouraged India to dismantle tariffs on up to 92% of its products, while Japan has already lowered tariffs. India has urged other RCEP members to include both services and goods in the agreement.

Previous studies have used some measurements to quantify the potential of FTAs, such as the CGE, econometric models, and GTAP analysis. This study contributes to the literature by measuring the saving potential of the FTAs, quantified based on MFN tariff reduction and the import value of each country. The RCEP negotiations have discussed tariff reductions that would have direct implications for import values; thus, it is necessary to measure the implications of tariff reductions.

Japan is an important partner for India as it receives Japan's largest share of ODA. The IJCEPA agreement, which seeks to improve the business environment for both countries, could pave the way for India and Japan to work together under the RCEP agreement. Existing areas of cooperation between Japan and India could be expanded under the RCEP. For example, India has offered a service linkage in the RCEP negotiation agreement, which could enable it to provide a large amount of skilled labor for Japan. In addition, Japan has several advanced technologies and a comparative advantage in manufacturing. These are possible avenues for future cooperation between the countries.

This study used HS six-digit tariff lines for analysis, as there were limitations on accessing export data based on India's HS eight-digit tariff lines and Japan's HS nine-digit tariff lines. As India and Japan signed the IJCEPA in 2011, it would be better to conduct a post-FTA analysis using the tariff lines that were agreed upon by both countries, based on HS eight-digit tariff lines for India and HS nine-digit tariff lines for Japan. However, this study used data from 2017 and 2018. Further research could use data from 2011, to more recent years to obtain calculation results close to the FTA agreement. Furthermore, future research could consider other factors for analysis, such as a nontariff barrier, as part of the import regulations of each country.

Conflict of Interest

There is no conflict of interest.

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