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India-Japan trade and financial flows

India & Japan flows dominated by FDI and FPI; bilateral tie-ups important for economic and infrastructure growth

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Highlights

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Japan has a major share in FDI equity inflows and FPI AUC, for India, whereas merchandise trade flows are limited.

The trade deficit increased between FY2021 and FY2024 because of global rise in commodity prices following geopolitical tensions.

ICRA has analysed the trade, financial flows and bilateral tie-ups between India and Japan. Trade with Japan is not significant for India except for a few chemical and metal items. However, in terms of financial flows, Japan has a major share in Foreign Direct Investment (FDI) equity inflows (the fifth largest country) and Foreign Portfolio Investors – asset under custody (FPI AUC) (the eighth largest country) for India.

The migrant population and remittances from Japan are not substantial. However, there are over 1,400 Japanese entities who have prominent investment in Indian automobile, electronics and entertainment sectors. Similarly, Indian entities in IT and pharma sectors have significant presence in Japan.

Bilateral agreements between India and Japan benefit India by enhancing trade, infrastructure development, and funding. Key partnerships include infrastructure projects, industrial corridors, and cooperation in essential areas such as semiconductors, space exploration, and digital technologies. These agreements also promote start-ups and skill development while tackling current challenges like climate change and supply chain disruptions.

Merchandise trade

- Japan's share in India's total merchandise exports was less than 1% in FY2024. However, exports to Japan are significant for India for some metals, chemicals and agricultural products.
- Japan's share in the total Indian merchandise imports stood at ~3% in FY2024. Imports from Japan are substantial for some metals, chemicals and machineries for India.
- Merchandise trade between India and Japan remained range-bound between FY2015 to FY2021. The import value for chemicals and metals from Japan increased since FY2022 because of the global rise in commodity prices due to geopolitical tensions. This led to an increase in the trade deficit at a CAGR of ~18% between FY2021 and FY2024.
- On the other hand, India's share stood at less than 1% of Japan's total imports and ~2% of exports. Indian trade is significant for Japan with regard to a few chemicals and metals.

Highlights

Japan contributes significantly to the overall pie of FDI equity inflows and FPI AUC. Increase in interest rates in Japan may impact FPI from Japan in the near term.

Bilateral agreements benefit India with trade, infrastructure and funding

Prominent investment by Indian entities in IT and pharma sector; Japanese entities have significant presence in Indian automobile, electronics and entertainment sectors.

FDI, FPI and remittances

- Japan is the fifth largest country with respect to FDI equity inflows and the eighth largest with respect to FPI AUC inflows in India.
- The Bank of Japan increased interest rates twice in the past six months after a stagnant rate for more than eight years. With Japanese FPIs accounting for ~3% of the total Indian FPI AUC, there could be some degree of near-term impact due to unwinding of the yen carry trades*.
- Japan's share in remittances and migrant stock is not significant.

Bilateral agreements

- Bilateral agreements between India and Japan have been executed to improve infrastructure, trade and cooperation.
- Key collaborations include infrastructure projects including rail and metro, cooperation in Indian sectors like power, steel, textile, pharma etc.
- Recent agreements also focus on semiconductors, start-ups, climate funding, supply chain resilience, Defence and skill development.

Corporate presence

- There are over 1,400 Japanese entities who have prominent investment in Indian automobile, electronics and entertainment sectors.
- Similarly Indian entities in IT and pharma sectors have significant presence in Japan.

** Note - When the Bank of Japan raises interest rates, it makes borrowing in yen more expensive. This leads to a reverse effect: Investors start to unwind their yen carry trades*

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