

Economy Wide Impact of the Trade Integration between Japan and India: A GTAP Analysis

Topic: Indian Trade

Author: Kakali Mukhopadhyay

Co-Authors: Biswanath Bhattacharyay

Recently India and Japan signed Economic Partnership agreement covering trade, investment, and Intellectual property rights on 25th October 2010. The EPA will eliminate tariff on goods that account for 94% of their two way trade over ten years. This is a strategic move between two countries which will boost bilateral trade and investment. Indian exports which were subject to rigid standards will find it easier to enter Japanese markets. On the other hand, reduction of tariffs would help Japanese exports to exploit the growing Indian market. Overall, India-Japan Comprehensive Economic Partnership Agreement(CEPA) is a major step for harmonious economic rise of Asia.

In this background, the study evaluates the economy wide impact of the proposed CEPA between India and Japan at 2020. The study has used a widely recognized global CGE model. Result shows a marginal increase in output growth for India and Japan in 2020 after tariff reduction compared to BAU. A marginal export growth is expected for both the countries compared to BAU 2020. A fair amount of trade creation within these two countries is expected to occur. India would likely to increase its export to Japan by 18.25%, while for Japan it will be only 4.65% by 2020. The proposed FTA will also improve the welfare of both the countries at 2020. On the whole, it reflects that compared to Japan, India is expected to gain more, if CEPA materializes by 2020.