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India–Japan CEPA at 15

Rising Trade, a Widening Deficit and the Search for a More Balanced Partnership

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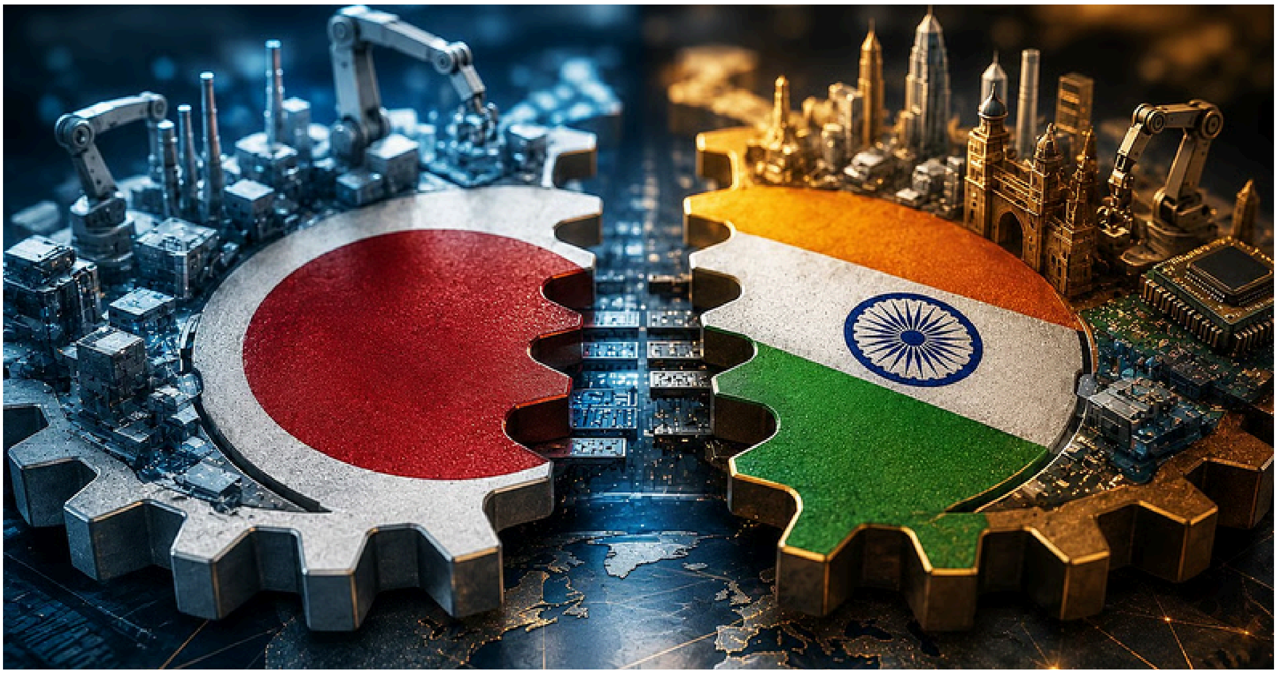
Introduction

India and Japan share one of Asia's strongest strategic relationships. Japan has supplied long-term capital, advanced manufacturing technology and infrastructure financing, while India offers a rapidly expanding consumer market, engineering talent and a potential alternative manufacturing base in the Indo-Pacific. Yet this strategic closeness has not translated into a balanced trading relationship.

The India–Japan Comprehensive Economic Partnership Agreement, or CEPA, came into force on August 1, 2011. Although the agreement substantially reduced tariffs, India's exports to Japan have remained modest while imports of Japanese machinery, chemicals, metals and electrical equipment have grown rapidly. India has consequently requested a review of the agreement to address implementation problems and align it with newer priorities such as semiconductors, digital trade, critical minerals and resilient supply chains.

Let us examine why the original CEPA has delivered limited export gains for India, what changes exporters are seeking, and how a modernised agreement could affect businesses and investors.



The 15-Year-Old Agreement Enters Review

Commerce and Industry Minister Piyush Goyal and Japan's Economy, Trade and Industry Minister Akazawa Ryosei have agreed on the need to accelerate discussions on reviewing CEPA. However, the final scope has not yet been decided. Both countries must first determine whether the exercise will focus mainly on existing implementation problems or develop into a broader renegotiation covering technology, investment, digital commerce and economic security.

The original CEPA was considerably wider than a traditional tariff agreement. It covered trade in goods and services, investment, intellectual property, customs procedures, sanitary and phytosanitary measures, government procurement and the movement of professionals.

Japan initially offered zero-duty access on about 87% of its tariff lines, compared with only 17.4% offered immediately by India. India was given ten years to eliminate duties on another 66.32% of tariff lines, allowing domestic industries time to adjust. Overall, Japan liberalised approximately 92% of its tariff lines and India 87.16%.

The central problem is therefore no longer merely the tariff charged at the border. The larger obstacles lie in certification, testing, product approvals, traceability standards, language and access to Japanese distribution networks.

The Trade Mathematics:
More Business, but a Sharper Imbalance

Bilateral merchandise trade increased from $20.58 billion in FY2021-22 to $27.47 billion in FY2025-26, representing growth of approximately 33%. However, this expansion was overwhelmingly driven by Japanese exports to India.

In FY2025-26:

- India exported goods worth approximately $6.03 billion to Japan.
- India imported goods worth approximately $21.43 billion.
- India's bilateral trade deficit reached $15.4 billion.
- Japanese imports were approximately 3.55 times India's exports.

The imbalance has deteriorated significantly. In FY2021-22, India exported $6.18 billion and imported $14.39 billion, producing a deficit of approximately $8.2 billion. This means India's exports were slightly lower in FY2025-26 than four years earlier, whereas imports increased by almost 49%. Consequently, the deficit expanded by nearly 88%. The export-coverage ratio—the proportion of imports financed through exports—fell from approximately 43% to only 28%.

India also remains a marginal supplier to Japan. Its share in Japan's total merchandise imports is below 1%, despite India being one of the world's largest producers of pharmaceuticals, chemicals, textiles, agricultural products and engineering goods.

Why Tariff Reductions Have Not Been Enough?

Japan is a high-value market, but also one of the most demanding. Products may qualify for low or zero customs duties under CEPA and still struggle to enter because regulatory approval, testing and commercial acceptance occur before meaningful sales can begin.

Food and agricultural exporters face strict sanitary, phytosanitary, fumigation and traceability requirements. A consignment may satisfy Indian standards but still require additional testing or treatment under Japanese protocols. The suspension of fresh Indian mango imports for the 2026 season following deficiencies identified in fumigation and disinfection procedures illustrates how compliance failures can temporarily close an entire product category.

Pharmaceutical companies face similarly demanding quality, documentation and approval processes. Market-specific testing and certification increase both the upfront cost and the time required to launch a product. These costs are particularly difficult for smaller exporters to absorb.

Indian industry has therefore sought Mutual Recognition Agreements under which test reports issued by accredited Indian laboratories would be accepted in Japan when the standards are equivalent. Exporters are not seeking weaker Japanese safety standards; they want to prevent the same product from being tested repeatedly in both countries.

The Hidden Opportunity in Agriculture and Consumer Products

India's agricultural trade with Japan demonstrates both the opportunity and the access problem. India exported agricultural and allied products worth $770.06 million to Japan in FY2025-26, an increase of 7.87%. Marine products alone contributed $451.11 million, or almost 59% of the total, showing that agricultural exports remain highly concentrated.

However, several categories reveal major untapped potential. Japan imported approximately $1.02 billion of bananas globally in 2025, while India—despite exporting nearly $499 million of bananas worldwide—supplied virtually none to Japan. Japan imported around $115 million of grapes, yet India's presence was again negligible. Similarly, Indian rice exports to Japan were only about $10.33 million against Japan's global rice imports of approximately $658 million.

There are encouraging signs in processed products. India's processed-vegetable exports to Japan rose from just $1.52 million in FY2021-22 to $21.75 million in FY2025-26, an increase of more than fourteen times. This suggests that once companies develop suitable processing, packaging and compliance systems, Japan can become a valuable premium market.

Textiles represent another large gap. India exported approximately $354 million of textiles and apparel to Japan in 2024, while Japan imported more than $30 billion globally. India's share was therefore barely above 1%, despite its extensive textile manufacturing base.

Is the Trade Deficit Entirely Negative?

A bilateral deficit is not automatically evidence of economic loss. A large part of India's imports from Japan consists of capital goods and industrial inputs rather than finished consumer products.

In FY2024-25, major imports included machinery and mechanical equipment worth approximately $3.31 billion, inorganic and specialised chemical products worth $2.53 billion, electrical machinery worth $2.01 billion, iron and steel worth $1.95 billion and copper products worth $1.81 billion. Together, these categories accounted for more than 60% of India's imports from Japan.

If Japanese machinery helps Indian companies increase productivity, localise components or produce goods for export, part of the deficit represents capacity creation. The real concern is that India has not simultaneously developed sufficient high-value exports to Japan. A successful CEPA review should therefore focus on improving the productive quality of imports while expanding Indian participation in Japanese supply chains.

The $50 Billion Target:
Why the Composition Matters

ASSOCHAM has proposed increasing bilateral trade to $50 billion by 2030. To grow from $27.47 billion in FY2025-26 to $50 billion in four years, trade would need to expand at an annual compounded rate of approximately 16%, more than twice the roughly 7.5% annual growth achieved during the preceding four years.

More importantly, reaching the target without changing the present trade composition could worsen the imbalance. If exports and imports retained their current shares, $50 billion of bilateral trade would consist of only about $11 billion of Indian exports and $39 billion of imports, creating a deficit of approximately $28 billion.

To reach $50 billion while keeping the deficit near its present $15.4 billion, India's exports would have to rise to roughly $17.3 billion—almost three times their FY2025-26 level—while imports increased to $32.7 billion. Therefore, the target should not be judged only by gross trade. Export growth, market diversification and value addition will be more important indicators.

What Does This Mean for Investors?

For investors, the CEPA review is not a simple “export stocks will benefit” event. Its actual impact will depend on the specific regulatory barriers removed and the sectors included in the final negotiations.

Indian food, marine-product, pharmaceutical, chemical, textile and engineering companies could benefit if certifications and product approvals become faster and less expensive. However, the largest beneficiaries are likely to be companies that already maintain strong traceability, quality-control and compliance systems. Japan rewards reliability and long-term supplier relationships more than short-term price competitiveness.

A second opportunity lies in Indian manufacturers partnering with Japanese companies. Auto components, electronics, industrial automation, precision engineering, batteries and semiconductor equipment could receive technology and capital even before Indian exports to Japan rise significantly.

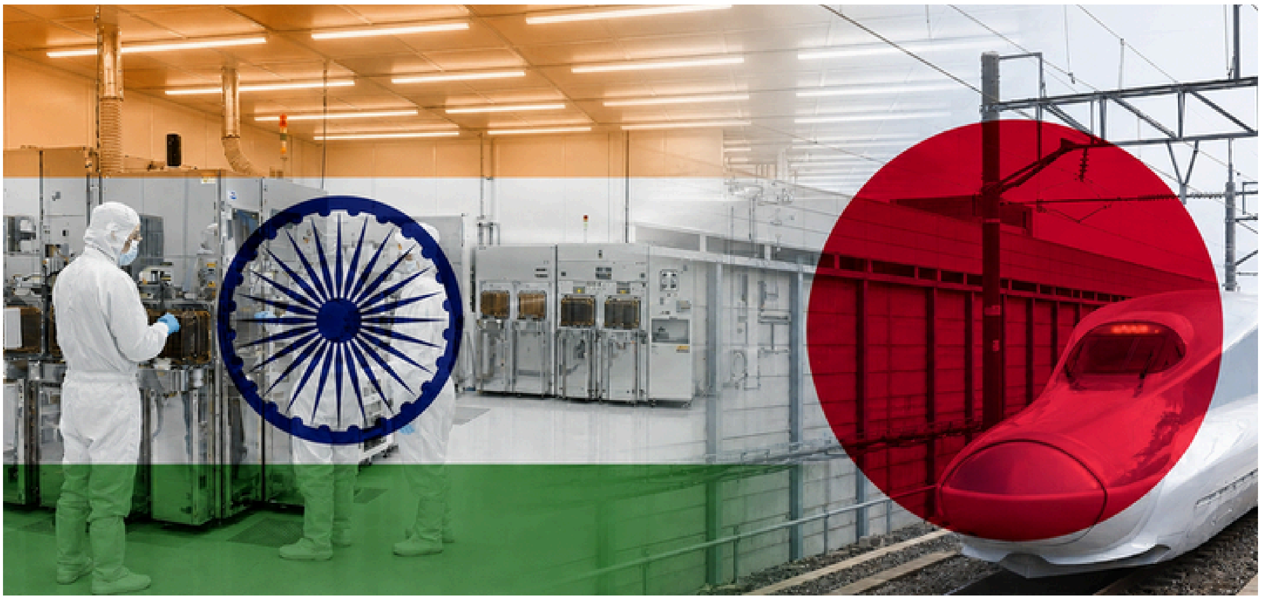
Investors should nevertheless distinguish between a government announcement and measurable corporate benefit. Important evidence would include Japanese customer additions, export orders, joint ventures, technology-transfer agreements, local R&D facilities and a visible increase in Japan-linked revenue. Negotiations may also take several years, while currency movements, compliance expenses and Japanese economic conditions could affect actual returns.

What’s Next?

The immediate task is to define the scope of the CEPA review. India is gathering industry feedback, while existing bilateral committees on rules of origin, customs, technical standards, SPS measures, services and movement of professionals provide a ready institutional framework for negotiations.

A meaningful review would need to go beyond another round of tariff reductions. It should create mutual recognition of credible certifications, time-bound regulatory decisions, digital customs processes, simpler origin rules, stronger links between Indian suppliers and Japanese buyers, and easier movement of skilled professionals.

India and Japan already possess the ingredients of a powerful economic partnership: Japanese capital and technology, combined with Indian scale, talent and manufacturing potential. The challenge is converting these complementarities into two-way trade. If the review succeeds, CEPA could evolve from a tariff agreement designed in 2011 into a modern framework for technology, investment and supply-chain integration. If it remains focused only on headline trade targets, bilateral commerce may grow to $50 billion while India’s deficit becomes even larger.



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