

Growing Together: Enhancing India-Japan Trade Via MSME's Collaboration

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ABSTRACT

India and Japan have shifted from a traditional diplomatic tie to a more strategic alliance, toward development of technologies, operational capabilities of micro small and medium enterprises. This alliance is especially important because it enables transfer of high-tech and advanced Japanese manufacturing capabilities. The National Institute for MSME (NI MSME), Japan External Trade Organization (JETRO) through a qualitative analysis of the India-Japan Industrial Competitiveness Partnership (IJICP) harnessing Japan's expertise through MSME's cooperation provides India a path to achieve its "VIKSIT BHARAT 2047" vision. The research gap is the macro infrastructure projects with high FDI on a large scale and the broader policy framework. There is no ground level tech transfer, quality standards, and B2B disconnect; the MSME operational gap is neglected. This paper fills the gap and analyzes how this collaboration in MSME sector can provide a vital mechanism for establishing reliable supply chains and the policy framework to have secured supply chain management in this critical era. The major strength of the study is the comprehensive policy framework. Barriers still remain such as information barriers and regulatory complications. The paper concludes with policy implications and recommendations on the way forward to bridge the gap and further deepening the ties between the two nations.

Keywords: Strategic alliance, Bilateral engagement, India-Japan Trade, Viksit Bharat, Policy Implication, Policy Suggestion.

INTRODUCTION

The context here is the special trade tie up between India-Japan, the CEPA, which has converted from a development-centric relationship into a full-fledged geo-economic alliance. As both countries are now looking to build resilient, manufacturing, and trustworthy supply chains in an increasingly volatile world, their economic complementarity has become a stabilizing anchor for the region (Prime Minister's Office, 2026). The partnership is moving in the direction of high value sectors (Teotia & Sahoo, 2026) with Viksit Bharat 2047 and Japan's diversified production bases goal, such as semiconductors, clean energy, advanced manufacturing and infrastructures, all this leading to a secure global supply chain. Historically, the relationship between India and Japan has been dominated by large scale infrastructure and foreign direct investment (FDI) but the future of this bilateral relation lies in development and progress of Micro Small and Medium Enterprises (MSME). These are vital to the economy of India contributing significantly to GDP in the form of manufacturing output or exports. India possesses a wide variety of MSMEs ranging from food-based industries to forest based industries to service-based industries. Japanese firms deepening linkages between India's Tier-II (component suppliers) and Tier-III (parts supplier) supplier ecosystems (Prime Minister's Office, 2026) are vital for converting these strategic links into worker- management partnerships (Khan, 2026). Japanese SMEs are increasingly seeing Indian talent as a solution to successful global expansion, not merely an investment destination, (Srivastava, 2026).

The Operational Gap: There are extensive policy frameworks such as the India-Japan Industrial Competitiveness Partnership (IJICP), but a continual "operational gap" impedes the transition from diplomatic objective to the reality of industry. Stringent quality compliance, process discipline and information

asymmetry are high barriers to entry that pose a major challenge to Indian MSMEs to successfully integrate into high value global value chains (Khan, 2026).

Research Aims: This paper investigates the systemic disadvantages to MSME and explores the role of policy interventions in bridging this gap. This research aims to examine actions and means for technology transfer, Kaizen adoption and collaboration in R&D through the analysis of existent bilateral initiatives, including the India-Japan SME Forum (21 November 2025) and joint working groups (Embassy of India, Tokyo, 2026). It concludes that direct MSME to MSME collaboration is a needed strategy to improve manufacturing and inclusive growth (Prime Minister's Office, 2026).

LITERATURE REVIEW

Development of the India-Japan Economic Relationship Development of the India Japan Economic Relationship. The special economic and global partnership was the outcome of the historic trade relationship between India and Japan (Embassy of India, Tokyo, 2026). After World War II, the relationship between the two countries was largely based on trade in commodities such as iron ore and cotton. The alliance grew into a multi-faceted alliance in defence, technology and infrastructure (Kait & Chauhan, 2023). One of the key agreements in this relationship was the CEPA signed in 2011 that aimed at liberalizing trade by removing tariffs on a large variety of commodities (Observer Research Foundation, 2014). However, these efforts could not tap the entire potential of bilateral trade which has been lagging behind the economic strength of the two nations (Kait & Chauhan, 2023). According to the Development Research of India-Japan Economic Partnership, the partnership has evolved due to geopolitical consequences but the transformation of political will into vigorous, ground-level industrial work is not seen. International Trade & MSMEs Small and Medium Enterprises (MSMEs) are engines of growth and employment generators and significant contributors to the global GDP (Mendis, 2025) as per the existing literature. But MSMEs are being confronted with tariff barriers from non-MSME, that is large corporations because of their ability to mitigate various risks. The most common problems faced by MSMEs are limited knowledge of the market, no or limited access to finance and lack of technical and management skills (Khaerani et al., 2023). Successful internationalization of MSMEs relies on strong networking, entrepreneurial intent, and the ability to access and better allocate assets, rather than on traditional factors alone. (Fernandes et al., 2023).

Operational Barriers and Challenges

In recent bilateral summits, MSMEs have been given global strategic importance that these have huge potential in making Indian Economy to grow faster and achieve the goal of Viksit Bharat 2047 easily. But there is a visible gap between the policy and its implementation at the grass roots level. The major barriers that contribute to this gap are information asymmetry and networking. Japanese firms often struggle to identify a trustworthy Indian partner, while Indian MSMEs face problems relating to market requirements, consumer demands, market conditions, and cultural ethics (Pajon & Saint-Mézard, 2018). There is a need to work on the standard and quality of the goods. There are government level partnership and willingness to improve the standards and work ethics in local small business with India Japan Industrial Competitiveness Partnership (IJICP). But some administrative bottlenecks and ground level industrial condition is lagging behind the world class level (Pajon & Saint-Mézard, 2018). Policy frameworks must include vocational training in Kaizen and lean manufacturing for effective technology adoption (Embassy of India, Tokyo, n.d.).

The Research Gap

From the existing literature it can be said that there is lot of information available about macro level trade effects of trade agreements like CEPA and how geopolitics affects the relationship between India and Japan. We don't know much about what prevents small businesses in India from working directly with businesses in Japan. Most of these studies have focused on large projects and foreign investment. There is a gap in understanding how small Indian businesses can work with Japanese companies and gain the skills they need to be part of the global network. This is important for India to achieve its goals, especially with MSMEs being a part of high standard global value chains of Japan in case of Viksit Bharat 2047.

METHODOLOGY

Research Design: The current study adopts a qualitative exploratory research design to explore the operational disparity of collaboration between MSMEs of India and Japan. International trade policy is complex, and its industrial implementation differs, so a qualitative approach is preferable to purely quantitative models. This design allows for a comprehensive examination of the institutional and structural barriers that impede the scaling up of bilateral MSME partnerships. Qualitative exploratory research using secondary data (beyond literature reviews) involves re-evaluation or interpretation of information previously collected, to uncover new insights, behaviors or underlying reasons for the problem.

Data Collection Strategy: The study employs the triangulation approach to ensure the reliability and full coverage of data. We draw together insights from 3 different sources to get the full picture • Preliminary analysis of official frameworks like India-Japan Industrial Competitiveness Partnership (IJICP) Roadmap, Ministry of External Affairs (MEA) Fact Sheets on Economic Security and bilateral MOUs. These papers show what the policy framework should be. • Data on business climate is from JETRO (Japan External Trade Organization) and reports on economic stability are from Confederation of Indian Industry (CII). These sources give ground level insights into the operational challenges faced by Japanese companies operating in India and the need for local suppliers to be integrated. • Thorough study of academic journals, working documents of organizations like ni-msme and industry reports. This enables to place the study within the framework of existing theories such as the Resource-Based View on firm internationalization and participation in Global Value Chains. Data analysis methods for data reliability and complete coverage of the study, Triangulation method is used. We synthesize insights from mainly 3 different sources to get a complete picture

- Preliminary analysis of official documents such as the India-Japan Industrial Competitiveness Partnership (IJICP) Roadmap, Ministry of External Affairs (MEA) Fact Sheets on Economic Security, and Bilateral Memoranda of Understanding. These papers show what the policy framework should be.
- Data on business climate is from JETRO (Japan External Trade Organization) and reports on economic stability are from Confederation of Indian Industry (CII). These sources give ground level insights into the operational challenges faced by Japanese companies operating in India and the need for local suppliers to be integrated.
- Deep examination of academic journals, working papers of organizations such as nimsme and industry reports. This makes it possible to interpret the study in the light of existing theories, such as the Resource-Based View on firm internationalization and engagement in Global Value Chains.

Method of Data Analysis: The data collected will be analyzed using thematic analysis, a systematic process for identifying, analyzing, and reporting patterns (themes) within data. The procedure includes the following steps:

- Thematic grouping: Data are grouped into thematic groups (Information Asymmetry, Compliance and Quality Standards, Institutional Support Mechanisms).
- Comparative Analysis: Data from multiple sources is used to contrast the gap between official pronouncements on policy and participants' experience in the industry.
- Synthesis: The findings are synthesized to create one narrative linking the barriers found to the larger development goals of Viksit Bharat 2047.

LIMITATIONS AND CREDIBILITY

Acknowledging the limitations of secondary data analysis, including the possibility of time lag in government reports or sector-specific bias, this study upholds academic rigor. To address these, the research employs authoritative sources (e.g., government agencies, credible trade bodies) and triangulates findings across different stakeholders (e.g., comparing government policy statements with industry reports) to mitigate bias and provide a balanced, neutral assessment.

ANALYSIS AND DISCUSSION

India-Japan Special Strategic and Global Partnership, there remains a gross mismatch between the government's declarations and its high-level diplomatic commitments and the realities in the ground conditions of industry. The Operational Divide Foreign direct investment (FDI) is substantial, particularly in semiconductors, and the infrastructure is booming, as evidenced by recent bilateral summits and industry statistics (Gateway House, 2026). However, the inclusion of MSMEs in these ecosystems is still incoherent (Indian Industries Association, 2018). Japanese companies are usually looking for process discipline, rigorous quality standards and consistency. They continue to build relationships with suppliers. On the other side, Indian MSMEs work with limited buffers, lack early warning systems for supply chain disruptions and are faced with complex compliance requirements (Stratisian Team, 2026). This gap means Indian MSMEs will not be able to emerge as trusted suppliers that Japanese manufacturers are looking for as they diversify their supply chains away from China (Khan, 2026). Eastern Economic Corridors (EEC) Interestingly the India-Japan business talk is moving into unexplored areas. The importance of eastern India, i.e. Jharkhand, West Bengal and Odisha are increasing (Dasgupta, 2026). Japanese investors are seeking greater predictability and the building of roads, highways and other infrastructure in eastern India is offering that, it is an alternative to the industrial areas of western and southern India (Srivastava, 2026). The Act East policy of India is aimed at the seven sister states of the eastern region of India. This plan is supporting India and Japan to work together in areas like supply chain management and business facilitation. This will help India showcase to Japan all that it has to offer thru sharing its cultures and many diverse options vis-à-vis MSMEs for future co-operations. The Act East initiative is bringing focus to the business dealings between India and Japan which is good for trade between the two nations. "Due to the untapped potential, Eastern India is a space for the nations to do business together and analyze the future of this partnership. There are good opportunities for business growth in East India for the two countries.

RESULT

Delay in policy implementation: Many medium enterprises are not availing many initiatives like PMEGP and RAMP launched by the central government. Only 10% of them have really benefited from these initiatives. It highlights the difference between formulating policies and executing it on ground or creating awareness among people at local level (NEXT IAS Current Affairs Team, 2026). There are some problems it will not go ahead. The main problems are not knowing or information asymmetry, lacking the right certifications, and not being able to get the money needed to work. These are known as Non-Tariff Barriers or NTBs short for short. Policy Implementation Delay and Obstacles to Integration like these Non-Tariff Barriers are surely holding things back. (Khan, 2026).

The Chuken Potential: Mid-sized companies like Chuken, meaning neither too big nor too small Japanese companies have an opportunity to work with Indian small and medium businesses. Working together on projects can be a way of doing technological transfer. Thus, knowledge of technology, ethics, and management skills can be enhanced. These types of partnerships are easier to manage and can help Indian companies to learn new skills like special chemicals, electronics and making precise engineering parts (Khan, 2026).

Sustainability as a Strategic Lever: Inclusion in Japanese supply chains is now mandatory for fit for green transition goals. Japanese companies want to partner with companies trying to go green. Japanese businesses are more likely to take notice of Indian businesses (MSMEs) if they adopt strategies like ZED (Zero Defect Zero Effect) certification or implement a circular economy. Sustainability is the agenda of Japanese companies, and they would like to work with the businesses whose values are same (Nagamalleswari, 2025).

Suggestions: Governments need to go beyond generic trade fairs and develop specific Technology Match Platforms (Rabhi, 2019). For Japanese investors, these platforms will list small and medium businesses that have already been checked and certified, making it easier to find them. "This will reduce the search cost and uncertainty for both sides to find each other and do business easily." (Srivastava, 2026). Set up a Fast Track Certification program or a single-window certification program to align Indian quality standards with Japanese requirements, so that Indian businesses can get certified faster, cheaper and be supply ready to Japanese

companies. Extend the Vocational Technical Training hubs on the Japan-India Semiconductor Ecosystem model. Establishing training centers for skills in demand by Japanese companies. Such centers should focus on famous Japanese management techniques, like Kaizen and 5S, and on precision engineering. This will give a workforce ready to work with global companies. A special window for loan programs for Indian small and medium businesses in particular should be there in public sector banks. The aim of these programs is to help companies finance technology and get certification to Japanese manufacturing standards. This will help enterprises to keep the cost of compliance with standards and thus increase their competitiveness (Nagamalleswari, 2025).

- Technology-Matching Platforms for Indian Businesses to Find Investors
- Rapid Certification will help Indian companies to get certified to standards
- Vocational Technical Training centers to teach skills that Japanese companies or even global companies require
- Special loan programs will help Indian businesses acquire clean technology and get certification to Japanese standards.

CONCLUSION

The way to Viksit Bharat 2047 is to improve India's MSME sector and transform it from a collection of fragmented units into a globally interconnected, resilient industrial backbone. The partnership with Japan is a unique and strategic opportunity to speed up this transformation. Instead of large infrastructure projects, India can bridge the operational gap and create a truly competitive environment for global manufacturing by focusing on granular, factory-level integration of MSMEs through policy. Create a global competitive manufacturing ecosystem. The policy focus should move from macro level infrastructure projects to ground level factory integration of MSMEs. With the depth of technological collaborations and matured supply chains between Indian MSMEs and Japanese giant-tech companies, trade alone is not the bar for success.

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