UNIT 18 JAPAN

Structure

18.0 OBJECTIVES

After studying this Unit, you should be able to:

- describe the economic structure of Japan
- explain the recent economic developments in Japan
- discuss foreign trade of Japan
- explain trends in India-Japan trade
- analyse the composition of India-Japan trade.
- describe India-Japan trade prospects.

18.1 INTRODUCTION

Japan has achieved substantial economic growth during the last three decades, emerging as a major economic power in the world. It has recorded continuous trade surplus and expanded massive investments overseas. The huge surplus in its trade, especially with the United States during the nineties, has brought the two countries on the brink of a trade war. Japan has also been dominating the markets of manufactured products world over with accent on high technology intensive products. It has also become one of the important innovators challenging the traditional powers in this field. The Japanese economy is currently undergoing tremulous experiences with an unsteady Yen and a declining industrial growth. The rate of unemployment had been continuously on the rise, having reached 4.1% in April, 1998. The economy has remained sluggish throughout the year, with the Government struggling to arrest the slowing down of industrial growth. In this unit, you will learn the economic structure, recent economic developments and foreign trade of Japan. You will further learn the composition and prospects of Indo-Japan trade.

18.2 ECONOMIC STRUCTURE OF JAPAN

Manufacturing has been the mainstay of the Japanese economy since the 1960s, enjoying rapid growth in productivity until the early 1990s. The electronics and car industries are famous for their success in international markets, although both have suffered in recent years from the strength of the yen, prompting a wave of outward direct investment in lower-cost locations overseas. Some areas of the economy, notably agriculture and distribution, are extensively regulated and suffer from low productivity. Both sectors are now under assault. Japan imports large volumes of agricultural products and has begun slowly to open up its closed domestic rice market (under the principle of minimum access up to 2001). The distribution system is being transformed by the 1992 revisions to the large-scale retail store law, which protects small shop by regulating the growth of large-scale stores; the revisions aim to simplify the procedures for opening large retail outlets and to allow longer opening hours.

During the first half of the 1980s GDP growth appeared to be powered by the external sector; exports expanded rapidly, while imports stagnated and the growth in domestic demand was subdued. However, the appreciation of the yen and the easing of monetary policy after 1985 resulted in domestic demand becoming the main engine of growth. The economy grew slowly between 1992 and 1995: the external sector has acted as a drag on real GDP growth and gross fixed investment contracted for three years between 1992 and 1994. Since 1992 there have been a series of huge fiscal stimulus packages from the government, which in 1996 boosted the real GDP growth rate to 5.2%. It is often argued that the success of Japan's industry has been at the expense of consumer welfare.

Table 18.1: Main Economic Indicators of Japan

	1995	1996	1997	1998	1999
GDP at market prices (Yen trillion)	483.1	500.8	509.8	498.5	495.8
Real GDP Growth (%)	1.4	5.2	1.6	-2.5	0.3
Consumer price inflation (%)	-0.1	0.1	1.7	0.6	-0.3
Population (million)	125.6	125.9	126.2	126.5	126.7
Exports ($ billion)	428.7	400.3	409.3	374.0	403.7
Imports ($ billion)	296.9	316.7	307.6	251.7	280.4

Source: EIU. Country Report of Japan, Sept. 2000.

From the above table it will be observed that the real GDP grew by 5.2 per cent in 1996 and by only 1.6 per cent in 1997. It has gone down to -2.5% in the year 1998 and 0.3% in 1999. The inflation rate stood at 0.1 per cent in 1996, 1.7 per cent in 1997, 0.6% in 1998 and -0.3% in 1999. It will also be seen that Japan has a large trade surplus during the period 1995 to 1999.

18.3 RECENT ECONOMIC DEVELOPMENTS IN JAPAN

Japan's real output will continue to decline in the short term owing both to an anticipated weakening of domestic demand and the poor prospects for exports. The pace of decline, however, should slow towards 2000, provided the government of Japan initiates meaningful reforms of the country's financial system. Japan's corporate sector faces a number of hurdles. The more immediate problem is that many companies are being starved of funds, as banks cut back on lending to all but the most creditworthy borrowers. Reluctance to lend by the banks is certain to have a damaging affect on corporate sentiment. As a direct result of the current credit crunch, corporate bankruptcies are reaching record levels.

Consumer sentiment in Japan is currently poor. Private consumption expected to have declined by 1.7 per cent in 1998 is expected to rebound further. The continuing fall in land prices together with the fall in the stockmarket and rising unemployment are some of the factors responsible for the weak economic situation. So far as slow down in Japanese exports is concerned it is primarily because of economic contraction in key Asian markets, decelerating growth in the United States and the recent strengthening of the yen against dollar. Economic growth is expected to resume in 2000. Although it is expected that the Government will have to tackle important areas of banking sector reform by 2000, it is unlikely that Japan's banks will be strong enough by then fully to act as engines of growth. Given the magnitude of the problems in the financial sector, full recovery will almost certainly take a couple of years more.

18.4 FOREIGN TRADE OF JAPAN

From the late 1950s until the mid-1980s Japan was heavily dependent on imported raw materials for processing into manufactured goods, which were partly destined for export markets, mostly in Western countries. But in recent years markets in other Asian countries have been expanding rapidly. The shipment of machinery and parts to Japanese production plants in neighbouring countries with lower wage costs and the subsequent shipment of finished goods back to Japan have substantially boosted trade flows with Asia. Partly because of various agreements on voluntary export restraints and Japanese measures to raise market shares of imported goods, the large bilateral trade surplus with the USA fell from its peak of $66bn in 1994 to $48 bn in 1996, although is has trended upwards again in 1997. One important reason for the narrowing of the trade surplus is the depreciation of yen which has depressed the dollar-value of Japanese exports. However, the structure of Japanese imports has changed since the mid-1980s-with manufactures taking an ever increasing share, currently around 60%.The details of foreign trade of Japan are given in Table 18.2.

Table 18.2: Foreign of Trade of Japan

(Million US $)

Year	Exports	Imports	Trade Balance
1990	286,948	234,799	52,149
1991	314,525	236,737	77,788
1992	339,650	233,021	106,629
1993	360,911	240,670	120,241
1994	395,600	274,742	120,858
1995	443,046	335,930	107,116
1996	413,069	350,848	62,221
1997	423,697	340,902	82,795
1998	374,000	251,700	122,300

18.4.1 Composition of Exports and Imports

Look at Table 18.3 which shows exports and imports of Japan. In the year 1999, Japan's principal items of export include: electrical machinery, transport equipment, non-electrical machinery, chemicals and metals. Electric machinery accounted for 25.14% of Japan's total exports in the year 1999 followed by transport equipment 23.48%, non-electrical machinery 22.05%, chemicals 7.60% and metals 5.90%. These five items together accounted for 84% of total exports of Japan in the year 1999.

So far as Japan's imports are concerned, the important items as per the figures of 1999 include machinery and equipment, mineral fuels, food, chemicals and textiles. Machinery and equipment accounted for 34.52% of Japan's total exports in the year 1999 followed by mineral fuels 17.62%, food 15.73%, chemicals 8.20% and textiles 7.42%. These five items together accounteed for about 83% of total Japanese imports in 1999.

Table 18.3: Principal Exports of Japan in 1999

Item	Value US $ billion	Percentage share in Total exports
Electric Machinery	101.5	25.14
Transport Equipment	94.8	23.48
Non-electrical Machinery	89.0	22.05
Chemicals	30.7	7.60
Metals	23.8	5.90

Source: EIU, Country Report, Sept. 2000.

Table 18.4: Principal Imports of Japan in 1999

Item	Value US $ billion	Percentage share in Total Imports
Machinery and Equipment	96.8	34.52
Mineral fuels	49.4	17.62
Food	44.1	15.73
Chemicals	23.0	8.20
Textiles	20.8	7.42

Source: EIU, Country Report, Sept. 2000.

18.4.2 Exports and Imports Market

Look at Tables 18.5 and 18.6 which show Japanese markets for exports and imports. Japan's major export markets include: United States, Taiwan, China, South Korea and Hong Kong. In the year 1999 US accounted for 30.7% followed by Taiwan 6.9%, China 5.6%, South Korea 5.5% and Hong Kong 5.3%.

Japan's important suppliers include: United States, China, South Korea, Taiwan and Australia. US accounted for 21.7% of total Japan's import followed by China 13.8%, South Korea 5.2%. Taiwan 4.1% and Australia 4.1%.

Table 18.5: Main Destinations of Japanese Exports in 1999

Market	% of total
US	30.7
Taiwan	6.9
China	5.6
South Korea	5.5
Hong Kong	5.3

Source: EIU Country Report, Sept. 2000.

Table 18.6: Main Origins of Japanese Imports in 1999

Market	% of total
US	21.7
China	13.8
South Korea	5.2
Taiwan	4.1
Australia	4.1

Source: EIU Country Report, Sept. 2000.

Check Your Progress A

1) Enumerate three principal item of Japan's export and import in the year 1999.

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2) Enumerate three major markets for Japan's export and import in the year 1999.

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3) State whether following statements are **True** or **False**.

i) Japan has recorded continuous trade surplus and expanded massive investments overseas.

ii) Japan's real GDP growth was positive in the year 1999.

iii) Recently Japanese companies are being starved of funds.

iv) China is the largest trade partner of Japan.

v) Food items account for third largest import of Japan.

18.5 INDIA'S ECONOMIC REFORMS

Despite the fact that India is far better placed than a number of countries in the world in terms of a large domestic market, a broad-based industrial infrastructure, a large pool of trained manpower, impressive entrepreneurial and managerial skills, abundant supply of cheap labour, and adequate natural resources, etc., it could not play the role of a global marketer because of its inward-looking economic management policies pursued for decades. At a time when world trade expanded fast, India missed its export opportunities because of its excessive emphasis on import substitution, sheltered markets and a controlled economy. The situation did not change until 1991 when the Government took a bold decision to integrate the Indian economy with the world economy by following a policy of liberalisation. Faced with a precarious foreign exchange situation, adverse balance of payments and huge external debt, the Government of India adopted a comprehensive programme of macro-economic stabilisation and structural adjustments beginning from June 1991. The programme included far-reaching trade, fiscal, monetary and industrial policy measures with a major thrust on improvement of competitive efficiency of Indian industries by utilising foreign investment and technology to a much greater degree than in the past.

Basically, the objective of reform measures was to dismantle controls on industry, external trade and foreign investments and to establish a climate of trust between the government and business & industry. The focus of the new policy is more on free play of market forces instead of State control in determining the country's future economic growth and development. Further, for the first time, the government has come out in favour of outward-oriented trade and industrial policies where exports assume prime importance.

18.6 INDO-JAPANESE TRADE

In the process of planned economic development of India, and economic recovery, structural changes and high speed growth of Japan, the two countries discovered that each offered opportunities to the other in the realisation of its economic goals. The desire to convert those opportunities to realities made them to forge closer economic relationship, encompassing trade, investment, industrial collaboration and credit finance transactions. However, it remained largely trade oriented.

India had been enjoying favourable balance of trade with Japan since 1990. It may be noted that Japan accounts for about 7% of India's total trade, India's share in Japan's world trade is insignificant, it being less than 1%. The most striking feature of Indo-Japanese trade had been its 'colonial' pattern, which remained unaltered despite various national and international developments in the fields of trade and economic relations.

18.6.1 Composition of India's Exports to Japan

India supplied raw materials to Japan and imported manufactured products from Japan. India's export basket to Japan consisted mainly of primary products, whereas imports consisted of manufactured products. Three products, viz, iron ore, marine products and diamonds accounted for three - fourth of India's total exports to Japan. Similarly, machinery and equipment, automobile parts and iron and steel accounted for major share of India's imports from Japan. Although there were relative changes in the share of individual products, the structure of Indo-Japanese trade remained unaltered over the years. Look at Table 18.7 which provides details of India's exports to Japan.

Table 18.7: India's Major Exports to Japan

(Million US $)

Items	1994-95	1995-96	1996-97	1997-98
Gems & jewellery	579.97	742.23	468.62	302.76
Iron ore	218.37	275.97	239.85	213.77
Marine products	465.24	416.59	459.38	497.09
Rmg cotton including Accessories	93.9	98.69	74.1	55.35
Other ores & minerals	52.66	45.62	45.11	36.84
Cotton yarn, fabrics made up etc.	98	95.58	107.17	119.83
Oil meals	9.86	38.03	57.9	29.99
Ferro alloys	45.81	71.35	45.9	36.28
Processed minerals	27.82	32.89	30.2	19.69
Total exports to Japan	2027.12	2217.07	2014.16	1726.81

Exchange rate

1994-95 1US $=Rs.31.39

1995-96 1US $=Rs.33.44

1996-97 1US $=Rs.35.09

1997-98 1US $=Rs.40.00

Source: *Directorate General of Commercial Intelligence & Statistics*

Marine Products: Japan continues to be the largest importer of fishery products in the world. It accounts for about 50 percent of India's exports of marine products. There has been a steady increase in exports of marine products from India to Japan. A large part of Indian exports is in the form of frozen shrimps, prawns and lobsters.

As in the case of other items, India depends heavily on the Japanese market for its seafood exports. India, whose share was 18 percent of the market in the early eighties lost its importance in subsequent years to Thailand, China, Indonesia and Philippines. These countries started exporting cultured shrimps, which accounted for 26 percent of the world trade in shripms in early 1990s. About 90 percent of India's exports consisted of shrimps captured, while competitors had a large share of farm shrimps. China accounts for about one-third of world output of cultured shrimps, followed by Indonesia, Thailand and Taiwan.

Global demand for fish and fish products by 2000 AD is projected to reach 112.2 million tons as against supply of 93.5 million tons, leaving a gap of 18.7 million tons. The Japanese market is also expected to grow proportionately by the end of the century. This creates sufficient scope for India to improve its position both globally and in the Japanese market. Its marine wealth is large enough to enable it to increase production as well as exports. The total estimated wealth of fisheries in Indian waters is 11.95 million tons, out of which the present level of annual exploitation is 1.67 million tons. This nedds to the supplemented by shifting the focus towards cultured shrimps as the present world balance of 74:26 in favour of captured shrimps is projected to change to 30:70 in favour of cultured shrimps.

Gems and Jewellery: The most impressive expansion has taken place in respect of jewellery and precious stones, earnings from which now exceed those from iron ore and seafood exports. Japan is the world's second largest market for gems and jewellery, with imports meeting about 30 percent of the demand for all types of precious and semi-precious stones and finished jewellery. Imports are mostly limited to middle-quality jewellery with finer, high-quality products made within the country from imported gold, silver and platinum. A small quantity of this variety was imported from European sources like Italy, France and Switzerland. With the yen appreciating rapidly since September 1985, imported jewellery has become cheaper than domestically-made products and so the balance is shifting in favour of imports.

The rising incomes of people and the desire to have a better living standard have created new fashions and tastes and a demand for products to meet these. For some years precious stones and jewellery of Indian origin were imported via Hong Kong. That was largely because of Japanese dissatisfaction with the invoicing methods followed by Indian dealers in jewellery and stones. Although earnings from export are quite large, Indian is not one of the major suppliers to the Japanese market. The top three places are occupied by Hong Kong, Thailand and Columbia. India's exports to Japan constitute less than 5 percent of its global exports, while the rest went to markets like the United Arab Emirates, Kuwait, United Kingdom and the United States. But in diamonds, India is the largest exporter to Japan, accounting for nearly 50 percent of the volume entering that country. In value terms, it comes after Belgium, and Israel. Indian exports consist of small diamonds which realise a low unit value, while the competitors specialise in supplying medium-grade diamonds. The United States supplies most of the high-grade diamonds and it takes the fourth place after India.

Until recently Japan used to take polished gems from India. Now the taste has shifted to finished jewellery made of gold, silver and other precious materials, fashion jewellery as they are known, and India has benefited from this trend. Hong Kong and Thailand have succeeded in this segment because of a relentless export drive and attention to quality, designs, and Japanese preferences and tastes. India has yet to develop a long-term strategy and obtain adequate publicity in Japan about its capacity.

Iron ore: Notwithstanding weakening world demand for iron ore in general and declining imports of iron ore by Japan, in particular, Japan will continue to remain world's largest importer of iron ore. It accounts for about one-third of world import of the item, though there had been gradual decline in the import of iron ore to Japan in recent years.

Japan continues to be the largest market for Indian iron ore, though its share in total iron ore exports is declining gradually from 61 percent in 1991-92 to less than 50 percent in 1997-98. From the Japanese point of view, India's importance as a source of large quantities of iron ore has diminished. India has slipped to the third place and is way behind the leader, Australia. Therefore, over the years what was envisaged as a relationship of mutual inter-dependence has developed into a relationship of overwhelming dependence for India. A relationship of overwhelming dependence inevitably creates vulnerabilities in respect of prices received and quantities delivered.

Raw Cotton And Cotton Based Products: Before normal Indo-Japanese trade got interrupted by the outbreak of hostilities, India's exports to Japan were dominated by raw cotton with very little diversification taking place during the inter-war period. Trade in cotton was resumed in 1946-47 and its export remained prominent in the first few years after India's independence. By 1951-52 the Japanese market took almost 40.0 percent of India's raw cotton export. Fifteen years later, cotton going to Japan had begun to shrink in India's export; still, it was an important foreign exchange earner although it had been overtaken by iron ore in 1956-57. But the great days of cotton were coming to an end. Its future was jeopardised by two developments. The first one was the introduction of synthetic substitutes by Japan in the place of natural cotton fibre; as a consequence, the demand for raw cotton began to grow weak. India had to compete vigorously for a shrinking market with suppliers like Australia, Pakistan, the Soviet Union and the United States. The second development was the rapid expansion of the textile industry within India leading to a steep rise in domestic cotton consumption and a reduction of exportable surplus.

In 1951-52 raw cotton's share in Indian exports to Japan was 37.3 percent; by 1965 it fell by more than half to 15.5 percent. from then on its decline was decisive and irreversible. By 1980 its share fell to 2.37 percent, and in 1990 to 1.97. Cotton waste remained closely behind raw cotton until the end of the first five-year plan. Thereafter it began to fall behind, and by 1965 it had virtually disappeared from the export list.

The loss of earnings caused by the fall in raw cotton exports has been neutralised by the impressive performance of a variety of cotton-related goods like fabrics, sheets and covers, ready-made garments, cotton accessories and handloom products. Between 1980 and 1990 their share in India's exports to Japan remained at 5.25 percent average. Over the next five years a six-fold increase in their export to Japan is envisaged. Export earnings from Japan for these items amounted to Rs.6400 million in 1997-98. The target is not very high but reaching it calls for great effort as the Japanese market for these products is getting crowded with many competitors like China, Hong Kong, Iran, Italy, the Republic of Korea, Taiwan and several others. China and Taiwan in particular are serious competitors.

Fashion garments and apparels, made of cotton and silk, have been targeted for special export promotion and have been for this purpose designated as "thrust products". As part of this effort, the services of a Japanese sales promotion agency have been enlisted, and reputed Japanese garment and apparel designers like Junko Koshino, Junko Shimada, Yukiko Hanai, Hanae Mori and Kensai Yamamoto were brought to India to study the possibility of developing and using Indian fabrics for their designs, and popularising them in Japanese and other markets. Also drawn into this action plan to promote the export of garments and other cotton-based products to Japan are some reputed trading firms like Itochu (formerly C Itoh and Comapny), whose subsidiary, C Itoh Fashion Systems, will act as consultants to Indian exporters. Being a non-quota country, Japan offers opportunities for Indian cotton readymade garments beyond their present market share of 4 percent.

18.6.2 India's Imports from Japan

So far as India's imports are concerned, the major items according to the figures of 1997-98 are machinery except electric & electronic, transport equipment, project goods, iron & steel, electronic goods, organic chemicals, professional instruments, etc. except electronics, artificial resins, plastic material, etc. and electrical machinery except electronic. Details of India's imports from Japan have been provided in Table 18.8.

Table 18.8: India's Major Imports From Japan

(Million US$)

Items	1994-95	1995-96	1996-97	1997-98
Project goods	340.22	319.37	190.94	188.23
Machinery except electric & Electronic	381.77	487.65	485.01	433.34
Electrical machinery except Electronic	40.13	60.95	41.55	43.50
Transport equipment	223.71	265.73	274.43	205.18
Iron & steel	128.18	204.64	212.08	181.82
Organic chemicals	124.75	163.62	143.9	145.23
Artificial resins, plastic Material etc.	53.91	90.76	86.33	69.73
Electronic goods	216.43	238.08	147.57	164.44
Professional instruments etc, except electronics	123.52	157.96	133.91	128.60
Total imports from Japan	2040.47	2410.69	2210.82	1977.95

Exchange rate used

1994-95 1US $=Rs.31.39

1995-96 1US $=Rs.33.44

1996-97 1US $=Rs.35.09

1997-98 1US $=Rs.40.00

Source: *Directorate General of Commercial Intelligence & Statistics*

As will be evident from the above table machinery and equipments accounted for more than 24 per cent of India's total imports from Japan followed by transport equipment (10.37 per cent), project goods (9.52 per cent), iron and steel (9.19 per cent), electronic goods (8.31 per cent) and organic chemicals (7.34 per cent). Thus as usual India's Imports remained mainly confined to machinery and equipments, transport equipments and iron and steel products.

18.7 INDO-JAPAN TRADE PROSPECTS

As discussed, the growth of Indo-Japanese trade since the two countries set up diplomatic relations 50 years ago has been steady. It has not seen the kind of dramatic leaps which the economies of China, Hong Kong, the Republic of Korea, Taiwan and the Association of Southeast Asian Nations have experienced in their trade with Japan. In fact, in comparative terms, the level of Indo-Japanese trade remains rather low and does not reflect adequately the growing versatility of the Indian economy. What is even more striking is that it is still confined largely to a low-value added, narrow Indian export base; the shift towards manufactured goods has been very slow and imperceptible.

One of the reasons why trade with Japan has not moved faster is that India's development strategy did not until recently give a central place to foreign trade as a means of mobilising external resources. The relatively better and easy access it had to foreign aid, both bilateral and multilateral did not generate sufficient pressure under which a vigorous trade policy formulation was possible. The Export Policy Resolution of 1970 tried to provide a corrective to this by emphasizing the importance of diversification and expansion of exports in order to reduce dependence on external assistance and achieve national self-reliance. Instead of evolving into a long-term trade strategy covering a whole gamut of products, that policy got diluted into a justification to provide artificial support to a limited number of products: e.g. subsidy to exporters of engineering goods, and easy licensing (what was termed as import replenishment licensing) for enterprises doing business in gems and jewellery.

The situation is changing as the new economic policy introduced in 1991 aims at giving high priority to foreign trade. Draft 9th Five Year Plan (1997-2002) envisages 14.5% export growth rate and 12.2% import growth rate, as against the 8th Plan performance of 10.3% and 14.1% respectively. In meeting this goal, the Japanese market assumes critical importance not only because it is the second largest for Indian products, but it is dynamic and expanding one; its importance has become greater as the rupee-payment markets have drastically shrunk in size and are not likely to be revived in the near future. (The Standing Committee of the India-Japan Business Co-operation Committee projects export growth at 20-22 percent per annum during 1995-2000. Actual export earnings from Japan in 1997-98, amounted to $1.6 billion.

With the yen appreciating continuously in relation to the rupee, exporting to Japan would become increasingly attractive. (A rising yen from the Japanese point of view should make imports from India inexpensive and therefore attractive, other things being equal). There are of course no readymade solutions or short cuts to get a place in the Japanese market. Trade with Japan, as with others, will certainly improve if the Indian economy manages to fulfil the growth rate of national product envisaged by the Eighth Five-Year Plan, namely 5.6 percent. With trade receiving sufficient attention, a high growth rate of the economy would be conducive to a correspondingly high rate of trade expansion, and the Japanese market has a tendency to respond positively to vibrant, expanding economies. The Japanese market is a highly competitive market and to enter and stay in it calls for maintenance of high standards of quality. In other words, there is need for India to focus attention on developing the competitive strength of its products instead of looking for preferential treatment such as the Generalised System of Preference introduced by Japan in August 1971. As a practical Japanese businessman puts it, what counts in international trade is the competitive strength gained in respect of costs, quality, delivery and assured long-term supplies.

Appreciation of the Japanese Yen and a series of market opening measures initiated in 1994 have indeed begun to offer great potential to improve trade and economic relations with Japan. These benefits have been fully exploited by other Asian countries like China, members of the ASEAN, South Korea and Taiwan. The share of exports, and to a lesser extent imports, held by Asian countries have grown, as Japanese firms with local plants in the region export machinery and import manufactured goods to the Japanese market.

World Bank had been making efforts to involve Japan in promoting investment in India. The Bank feels that there are several advantages of strong Japan-India economic ties and that in the next 20 years, Japan could play the same catalytic role for South Asia as it did for East Asia. Though the Japanese business and industry have had their presence in India for a long time, the relationship has so far focussed on aid and limited amount of trade. The total Japanese investment has remained at $332 million, accounting for half percent of Japanese investment in Asia.

Unlike the western investors, the Japanese investors have been cautious in their response to the new open door policy of India. They have been adopting a 'wait and watch' approach. Moreover, the Japanese investment has been confined mainly to the automotive and electronic sectors. The absence of an exit policy, infrastructural constraints and red tape are reportedly the major factors inhibiting sizeable Japanese investment in India. The World Bank, however, pointed out that there are promosing opprotunities in manufacturing, financial services and infrastructure sectors in India which could be taken advantage of by Japanese industry. The Bank also feels that as India's exports constitute only 10 percent of GDP, substantial part of foreign investment in India should go to export-oriented industries.

As mentioned earlier, for India, Japan has been one of the major trade partner accounting for a fairly large share in the former's exports and imports over the years. On the other hand, India is so far only a marginal partner in Japan's trade. Intensification of bilateral economic cooperation would require special efforts on both sides in the spirit of true, mutually beneficial partnership. These are needed at both governmental and industry levels.

The slow growth of India's exports to Japan and Japan's exports to India can be attributed largely to the past "over protective" trade policies practised in India. Since the initiation of the present reform process in India, there have been significant policy changes. India's liberalised trade policies have been quite successful and the Japanese market response to these changes has been quite positive.

Most of India's exports to and imports from Japan are seen to be either inelastic or non-significantly responsive to any kind of changes. In bilateral trade this is not very surprising, but it points out the need for export promotion efforts. Quality control and incentive to producers of select commodities for export and diversification to add new products, particularly value added products like cashew-nuts, fish products and other processed food will improve the scope for expansion of Indo-Japanese trade. In order to increase India's exports to Japan specific attention is to be paid on the following measures:

1. In general, all the agricultural export commodity groups should be brought under rigorous quality control. The new entrants to the export basket should satisfy the fashion-conscious Japanese.
2. To further improve the quality of iron ore and concentrates, raw cotton, oil cakes, fish and fish preparations, chrome ore, tobacco and cashew kernels exported to Japan.
3. Another measure would be to encourage the domestic production of rose wood, tea and coffee. It must be ensured that the efforts to augment export surplus of these commodity groups must be effectively coordinated and that their prices are kept remunerative.
4. Increasing the quantity of iron ore and concentrates exported to Japan could be made possible by intensifying the mechanising of the mining operations, ensuring speedier and adequate transport facilities for movement of ores and enlarging the berths.
5. Training needs to be provided to the artisans to promote exports of cut diamonds, garments and musical instruments.
6. Since India's imports from Japan contained largely the finished products, chemicals and industrial raw materials of proven superiority, efforts must be made to increase

their production in the home industries, with possible technical collaborations with Japan. India may initiate and intensify proper negotiations for a reduction in unit value of machineries, iron and steel, organic compounds and synthetic rubber. Stability achieved in value imported from Japan must be maintained, progressively adopting measures to seek gains for India in its trade with Japan.

There is a large potential for expanding the Indo-Japanese trade relations. To realise the potential, government to government dialogue as well as growing contacts and business relationships between Indian and Japanese business are essential.

18.8 LET US SUM UP

Japan is one of the world's largest exporter and importer. Japan is a very important trading partner for India mainly because of the fact that currently it accounts for about 7 per cent of India's exports and supplies about 9 per cent of India's total imports. On the other hand India is quite insignificant for Japanese trade because India accounts for around 0.52 per cent of Japan's exports and 0.78 per cent of its imports.

Gems & jewellery, iron ore, marine products, RMG cotton including accessories, cotton yarn fabrics madeup, etc., oil meals, ferro alloys and processed minerals are the major items of India's exports to Japan. So far as India's imports are concerned the major items include project goods, machinery except electric & electronic, electrical machinery except electronic, transport equipment, iron & steel, organic chemicals, artificial resins, plastic material, etc., electronic goods and professional instruments except electronic.

There is a large potential for expanding the Indo-Japan trade relations. To realise the potential, government to government dialogue as well as growing contacts and business relationships between Indian and Japan business are required to be initiated at the earliest.

Check Your Progress B

1) Enumerate four items of India's exports to Japan.

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2) Enumerate four items of India's imports from Japan.

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3) State whether the following statements are **True** or **False**.

i) India has been enjoying favourable balance of trade with Japan since 1990.

ii) Japan is the second largest importer of fishery products in the world.

iii) Japan is the world's second largest market for Jems and Jewellery.

iv) Iron ore, marine products and diamonds accounted for-three fourth of India's total exports to Japan.

v) Most of India's exports to Japan are elastic items.

18.9 ANSWERS TO CHECK YOUR PROGRESS

A3 i) True ii) False iii) True iv) False v) True

B3 i) True ii) False iii) True iv) True v) False

18.10 TERMINAL QUESTIONS

1. Describe the recent economic development and foreign trade of Japan.
2. Describe the composition of Japan's trade with the world.
3. Why do you think Japan is an important trading partner for India, but India is not an important trading partner for Japan. Discuss.
4. What are the major constraints in Indo-Japanese trade and how can they be overcome.
5. Explain the composition of India's export to Japan. Discuss the prospects for Indo-Japanese trade.