# ECONOMIC RELATIONS BETWEEN DEVELOPED AND LESS DEVELOPED COUNTRIES : THE CASE STUDY OF INDO—JAPANESE TRADE IN THE 1980s

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## CERTIFICATE

Certified that the dissertation entitled "ECONOMIC RELATIONS BETWEEN DEVELOPED AND LESS DEVELOPED COUNTRIES: THE CASE STUDY OF INDO-JAPANESE TRADE IN THE 1980s" submitted by ANIL G. in partial fulfilment for the award of the degree of MASTER OF PHILOSOPHY is his own work based on primary and secondary sources. This dissertation has not been submitted for the award of any other degree of this University or elsewhere. It may be placed before the examiners for evaluation.

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# PREFACE

The economic performance of the less developed countries in the post-World War II era has been far from impressive. The factors responsible for this have been the institutional characteristics of the post-war economic order and its trade practices which inhibit the development of the less developed economies.

The less developed countries face problems in every field of economic activity. The trade practices of the post-war international trade order have a built in bias against the less developed countries, who are exporters of primary commodities. The domination of the developed countries in the functioning of monetary and financial institutions is not congenial to the development of less developed countries. The oligopolistic nature of the world market for technology adversly affect the developmental efforts of the less developed countries. The balance-of-payment problems along with the developmental needs force the less developed countries to borrow extensively pushing them into a debt trap.

This study examines the trade relations between India and Japan in the backdrop of the issues in the world economy. India is a less developed country exporting low value-added products , while Japan is a highly developed country exporting heavy industrial and high-tech products.

Thus the trade relation between these countries can be studied as a representative case of the trade between developed and less developed countries.

The study is divided into four chapters. The first chapter is an assessment of the functioning of the world economy and the problems faced by the less developed countries. The second chapter is an overview of the trade relations between India and Japan. The third chapter deals with the trends and issues in Indo-Japanese trade. In the final chapter an attempt is made to summarise and analyse the preceding chapters.

The study is based on various primary and secondary sources. Primary sources used in this study are the statistical data published by various government departments both in India and Japan. The secondary sources include books and articles. A select bibliography of the sources given at the end.

I express my sincere gratitude to Prof.P.A.Narasimha Murthy, who guided me in this work.

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(ANIL G.)

# Chapter I

## CHANGING NATURE OF INTERNATIONAL ECONOMIC RELATIONS

Economic relations between developed and less developed countries have always been a controversial issue. The controversy arises from the fact that the benefits from international economic relations are distributed unequally among countries. This unequal sharing results in the existence and widening of the gap between developed and less developed countries. Three-fourth of world population live in less developed countries; but their share in the world income is only one-fifth.[1] They complain that the economic order which evolved after World War II has a built-in bias against them, which frustrates their development efforts and relegates them to the status of dependent economies. They demand the unequal present economic order to be replaced by a just new international order. In 1974 the sixth special session of the UN General Assembly adopted a declaration and a programme of action for the establishment of a New International Economic Order. But achievements have been very little in this regard because of the non-cooperation of the developed countries.

The historic causes of underdevelopment can be traced to the colonial past of the less developed countries. Colonial conquest and the subsequent economic subjugation destroyed their potential for growth and reduced them to

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1. Willy Brandt, North-South: A Programme for Survival, Report of the Independent Commission on International Development Issues (Cambridge, Massachusetts, 1980), p.32

the status of dependent economies. The international division of labour thus evolved reduced colonial countries to being specialist producers and exporters of raw materials and food stuffs, while encouraging the industrialized world to produce and sell manufactures. This historic division of labour generated and perpetuated underdevelopment in the colonial economies.

The post World War II era witnessed a dramatic and speedy decolonisation process and the emergence of a large number of independent countries. This period also witnessed the decline of Britain and the emergence of the United States as the dominant power of the world. United States, along with Britain, initiated the framing of the institutions to monitor and control world finance and trade. This was done without considering the weakness of the colonies. Thus the inequality among nations got institutionalised.

In 1944, leaders of the Western powers met at Brettonwoods in New Hampshire and established two crucial instruments of international monetary and financial cooperation - the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) popularly known as the World Bank. They also envisaged an International Trade Organization (ITO) but it never came

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2. Hartmut Elsenhans, Development and Underdevelopment (New Delhi, 1991), pp.27-36.

into existence as the US Congress failed to ratify its charter. A less ambitious project - General Agreement on Tariffs and Trade came into existence in 1947.[3]

For any serious study of the trade between developed and less developed countries, a preliminary understanding of the problems in the international economic order is a necessity. Problems exist in every field of international economic activity. Some major problems existing in the international economic order are identified and discussed in this chapter. This discussion covers the problems existing in the international trade order, transfer of resources and technology, monetary and financial institutions and the operations of transnational corporations.

<u>Less Developed Countries in the World Trade Order</u>

Less developed countries are very sensitive over the issues concerning international trade because of the fact that export earnings are the most important source of their foreign exchange resources. The less developed countries are sceptical about the present trade order. They think its trade practices along with its institutional characteristics combine to thwart their development efforts and push them into the periphery of the world economy.

The most important problems confronted by the less developed countries are the following:

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3. Brandt, n.1, p.36.

(1) They are facing unequal exchange in international trade;

(2) their manufacutred goods are denied access to the markets of developed countries by the tariff and non-tariff barriers erected by these countries;

(3) they fail to secure stable and remunerative prices for their commodity exports.

Prices of their commodity exports are declining relative to the values of their manufactured imports. In the following pages, these problems are studied in detail.

Unequal Exchange

Unequal exchange is the basic problem of the international economy. As stated earlier in the beginning of this chapter colonialism led to an unequal international division of labour and specialisation. This unequal specialisation of production among different nations automatically led to unequal exchange between economies.

Former colonies specialised in the production and export of primary commodities, which are low value added products while the industrialised countries specialised in the production and export of high value-added industrial products. Labourers producing for export in developed countries get higher wages than their counterparts working in less developed countries. According to the famous French economist Arghivi Emmanuel, this wage differential is the basic cause of unequal exchange and underdevelopment.[4]

Unequal exchange often leads to balance-of-payment problems for the less developed countries. This forces the less developed countries to borrow heavily, from bilateral and multilateral institutions and even from private sources. This way many countries fall into the 'Debt trap'.

LDCs' Export of Manufactures

Soon after they attained independence, less developed countries began to industrialise themselves. This way they thought, they can emulate the western experience of development. In the earlier phase of industrialisation, their aim was import substitution. Then they turned to export promotion, when their specialisation in some labour intensive industries resulted in their comparative advantage vis-a-vis developed countries in those industries.[5]

In the last three decades less developed countries' share in the world exports of manufactures has increased considerably. The developed countries have reacted to this by erecting tariff and non-tariff barriers on the exports of manufactures by less developed countries.

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4. Ankie M.M.Hoogwelt, The Third World in Global Development (London, 1982) , p.192.

5. Arjun Sengupta, ed., Commodieis, Finance and Trade (London, 1980), p.xxx.

Less developed countries are very much concerned about the tariff structures of advanced industrial states. Successive rounds of multilateral trade negotiations have reduced the average level of tariff on manufactured products to around 5 per cent. But exports of manufactures from less developed countries face tariff barriers two to five times this average.[6] In addition, exports from less developed countries face various non-tariff barriers like quotas, environment and health regulations and so forth.

Share of LDCs in the Export of Manufactures

(US $ in million)

| Year | World Wide | Developing Market economies | In percentage |
|---|---|---|---|
| 1962 | 79,758 | 4,210 | 5.2 |
| 1970 | 172,868 | 8,849 | 5.1 |
| 1975 | 535,267 | 29,797 | 5.6 |
| 1978 | 626,900 | 66,829 | 10.7 |
| 1980 | 1,134,939 | 109,236 | 9.6 |
| 1982 | 1,072,393 | 118,358 | 11.0 |
| 1984 | 1,168,045 | 155,335 | 13.3 |
| 1986 | 1,467,997 | 192,247 | 13.0 |
| 1987 | 1,759,261 | 258,454 | 14.7 |

Source: Hartmut Elsenhans, Development and Underdevelopment (New Delhi, 1991), p.99.

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6. David H.Blake and Robert S.Walters, The Politics of Global Economic Relations (Engelwood Cliffs, New Jerseys, 1987), p.34.

Developed countries impose extremely severe barriers against products in which the less developed countries enjoy comparative advantage such as textiles, semi-processed metals, wood products, leather products and electronic consumer goods. Capital goods and industrial products exported mainly by developed countries face the lowest tariff rates in world trade. When less developed countries are capable of penetrating these tariff and non-tariff barriers, developed countries erect new ones to protect inefficient domestic producers.

Problems in Commodity Trade

Most of the less developed countries' export earnings come from primary commodities. In 1985, less developed countries exported goods to the tune of US $463 billion, of which the share of manufactures was only $150 billion. $298 billion came from primary commodities, of which fuels made up $195 billion, mineral raw materials $25 billion and agricultural products $78 billion.[7] Improved earnings from primary commodities are important for less developed countries, as they can help the development of manufacturing industries, which in turn can contribute to the development of their economies.

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7. Elsenhans, n.2, pp.85-86.

## Development of Processing Industries

It has been estimated that for ten commodities, local semi-processing cculd provide one and a half times what these commodities earn at present.[8] But the development of processing is hindered by the barrier erected by the developed countries. Developing countries can export rice to European Economic Community free of duty. But they face a 13 per cent tariff on processed rice. Untreated wood goes free to Australia, but sawn timber faces a tariff of 14 per cent. These added tariffs are not proportional to the local value added. This is a serious hindrance to developing countries' export efforts. The freight charges also are higher for the processed products.

## Price Enhancement

Less developed countries are not getting a fair share of the final price of the commodities. This is due to the fact that the LDCs have not been able to process, export or distribute the commodities they produce. Most of the products of LDCs are processed and marketed by transnational corporations. The share of the final price received by producer countries are under 10 per cent for iron and bauxite, 20-40 per cent for tea, coffee, cocoa beans, bananas and jute and about 50 per cent for sugar.[9]

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8. ibid, p.142.

9. Fidel Castro, The World Crisis (London, 1984), p.64.

Transnational corporations exert tremendous control over commodity marketing. They set a price, take over production and sell the produce at the established price in any quantity market can absorb. Such "managed prices" - prices fixed by the seller to maximise monopoly profit, result in unequal sharing of prices.[10] If the LDCs are to get a fair share of the price, they will have to concentrate on processing and market promotion.

## Price Instability

It is important for less developed countries to secure stable and remunerative prices for their primary products to finance their development and avert persistent payment deficits. Prices of primary commodities keep on fluctuating very often leading to unstable incomes for producers. This makes development planning impossible for primary producers.

Problem is more acute for those countries which have a high commodity concentration in their exports. Some countries earn most of their foreign exchange from one or two commodities. These countries can be affected badly by the fluctuation in the prices of their commodity exports. One or two dramatic fluctuations in commodity prices can shatter such economies out of shape.

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10. ibid, p.66.

These price fluctuations are caused by problems in both supply side and demand side. On the demand side trade cycles and the oligopolistic nature of commodity market are the important problems. On the supply side the heavy dependence of LDCs on commodity exports and the variations in harvest (in case of agricultural products) are the main causes.[11] In most cases of price fluctuations activities of transnationals, who control the market is the problem.

Declining Terms of Trade

Declining terms of trade is one of the basic structural problems faced by the LDCs. It has been observed that there is a decline in the economic position of LDCs in the long run. This is due to a long-term decline in terms of trade for the exchange of primary commodities for industrial goods.[12] In other words, value of primary products has declined relative to the value of manufactured products in world trade.

Fidel Castro illustrates this phenomenon citing the following examples. In 1959, with the income from the sale of 24 tons of sugar, one 60 horse power tractor could be purchased. In late 1982, 115 tons of sugar was needed to buy a tractor of same power. In 1959, with the income from

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11. Brandt, n.1, p.146.

12. Blake and Walters, n.6, p.40.

6 tons of jute fibre a 7-8 ton truck could be purchased. In 1982, 26 tons of jute fibre was needed to buy a truck of the same capacity.[13]

A number of factors are responsible for this decline. Most important of them is that productivity increases in advanced countries lead to an increase in wage and other input costs. In less developed countries productivity advances do not lead to an increase in wages or other input costs, due to disguised unemployment and weak labour unions. Instead it would result in a price decline passed on to the consumers, located predominantly in developed countries.[14]

GATT and the World Trade Order

GATT - the General Agreement on Tariffs and Trade is a legally binding codification of rules for the conduct of trade among its member states. It was created in 1947 to maximise growth in world trade through a reduction in trade barriers pursued on a non-discriminatory basis.

Successive rounds of multilateral negotiations under GATT have been successful in bringing down the average level of tariff protection. Now on-tariff measures of protection such as government procurement regulations, quotas and health and environment control standards are

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13. Castro, n.9, p.62.

14. Blake and Walters, n.6, p.40.

more important than tariffs. These areas are not covered adequately by GATT.

Developed countries have reached a period of diminishing returns from mutual tariff reductions on industrial goods.[15] Now they are trying to cover new areas, which are of immense importance to them.

GATT and the Less Developed Countries

The less developed countries have felt that their interests are not adequately reflected in the GATT. They view it as a club created by developed countries and managed in accordance with their primary interests. The way the present round of negotiations are conducted confirms this feeling. They demand corrections of some "structural problems" of the GATT.

The structural problems highlighted by the less developed countries are the principles of MFN and reciprocity. Their main objection to MFN principle is that it inhibits developed countries from giving differential treatment to less developed countries' exports, as a spur to their development efforts.[16] They oppose reciprocity because it is equitable only when applied to trade among states at approximately same level of economic development.[17]

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15. ibid. p.30.

16. John W.Evans, "General Agreement on Tariffs and Trade", in R.Gardner and M.Millikan, The Global Partnership (New York, 1968), pp.92-93.

17. ibid, p.76.

when it is applied to trade between developed countries and less developed countries, it will result in the deterioration of the situation in the latter.

## Uruguay Round Negotiations

The Uruguay round started in 1986 with the Punta del Este meeting of the ministers of GATT member countries. Introduction of a number of controversial subjects from the point of view of the less developed countries have been the most important aspect of the agenda of the Uruguay Round. These areas are the liberalisation of Trade in Services, Trade Related Intellectual Property Rights (TRIPS) and Trade Related Investment Measures (TRIMS).

Trade in services include such important areas as banking, insurance, communications and transportation. These activities constitute around 20 per cent of world trade. United States and Japan are the most interested parties interested in liberalisation of trade in services. But the EEC and the less developed countries are reluctant to commit themselves in these areas.[18]

Another area of interest of the developed countries is the trade related aspects of intellectual property rights. They think that the World Intellectual Property

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18. Sumitra Chisti, Restructuring of International Economic Relations (New Delhi, 1991), p.101.

Rights Organisation (WIPRO) has been ineffective in protecting the interests of the holders of patents. But less developed countries are reluctant to come to an agreement as it will have serious impacts on them. It may dampen the development of the local technology base. It may result in an increase in the cost of technology. Moreover it will result in monopolistic control over technology. Also that governments of these countries are not interested in internationalising an area which hitherto was their sole concern.[19]

In the Uruguay round, there have been consistent efforts from the developed countries to bring the issues of trade related investment measures in the purview of GATT. Less developed countries maintain that the issue of foreign direct investment is beyond the jurisdictional competence of the GATT.[20]

Problems in Transfer of Technology

The distribution of the development and flow of technology has been uneven among the countries of the world. The fact that more than 90 per cent of modern technology originates in developed countries, is enough to show the kind of dependency of the less developed countries

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19. ibid, pp.109-19.

20. ibid, pp.116-21.

in the field of technology. So the flow of technology between developed countries and less developed countries is a one way process.

Two issues related to transfer of technology are considered to be the most important ones:

(1) appropriateness of the technology being imported.

(2) availability and cost to the purchaser.[21]

Appropriateness of the technology being transferred from developed countries is under dispute. Generally technology developed in a society caters to the needs of that society. The technology created in the western countries is capital intensive and it creates very few jobs. Adoption of such technology is harmful in the countries where there is a scarcity of capital and widespread unemployment.

Another problem is the pricing of technology. The international market for technology is an oligopolistic market, and most of the technology is sold, not transferred. Some 75 per cent of the technology is transferred through transnational corporations to their subsidiaries and they manage to get very high prices, much more than the real price of the technology.[22] Most of the technology

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21. Hans Singer, "Transfer of Technology: A One-Way Street", in Hans Singer, Neelambar Hatti and Rameswar Tandon, Technology Transfer by Multinationals (New Delhi, 1988), pp.8-16.

22. Hoogwelt, n.4, p.83.

transferred to less developed countries are obsolete as developed countries are not willing to transfer latest technology to less developed countries. The payments made for technology imports add to the external payments problem of the less developed countries. Technology transfer also discourages the development of a local technology base in the importing countries.

Transfer of Resources and Debt Relief

Less developed countries face problems like poverty, unemployment and they are unable to make use of available resources due to the lack of capital and technology. To overcome these problems a massive transfer of resources from developed countries to less developed countries is essential. But the present flow falls short of the needs of the less developed countries.

The debt crisis is another important problem faced by the less developed countries. These countries borrow extensively from governmental and non-governmental sources of the developed countries to meet their developmental needs and to avert balance of payment problems. Now they find it difficult to repay even the interest of the loans. Debt servicing account for more than 50 per cent of the total export earnings of some less developed countries.[23]

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23. Sengupta, n.5, p.xxx.

This will hamper their development efforts very much. These outstanding debts call for cancellation or rescheduling.

The Role of Monetary and Financial Institutions

The International Monetary Fund was created to manage the world monetary system. Its main task was to assist its member countries to overcome their short-term balance-of-payments problems. The World Bank (IBRD) was set up to finance the development needs of its members. The institutional framework and voting pattern of these organisations are not helpful to less developed countries.

In the case of IMF, the drawing power and the voting power is directly proportional to their subscription. In 1980, of the 141 member countries, the 114 less developed countries had together about 36 per cent of the vote. Decisions on most cases require three-fifths of its members and 85 per cent of the voting power.[24]

Moreover, loans from IMF is attached to certain conditions including deflationary domestic economic policies, reduction of public expenditures, and liberalisation of international trade and investment policies. The very conditions which produce the necessity to borrow money are continuously reimposed by the pressures to pay back the loans and to pay the interest on these loans.[25]

24. Hoogwelt, n.4, p.84.

25. Harry Magdoff, The Age of Imperialism (New York, 1966), p.98.

A country refusing to observe these conditionalities shall be denied a loan, not only from IMF, but also from other major sources of credit such as the World Bank, regional development organisations, government to government loans and even private sources of credit.[26] Most of these institutions are not ready to lend for setting up business in these countries, but lend for non-productive projects, so that these developing countries remain to be producers of primary commodities. These policies expose IMF and World Bank to harsh criticism from less developed countries.

## Conclusion

It is evident that the present international economic order is not conducive to the uninhibited development of less developed countries. The institutional aspect of the present system inhibit the development of less developed economies. So they are calling for some basic reforms in the system.

Reforms are needed in the world trade order, international monetary and financial set up. The less developed countries should be given preferential treatment in the world trade order. There should be some sort of democratisation in monetary and financial institutions governing the world economy. World technology market should be liberalised

26. Blake and Walters, n.6, p.87.

to help less developed countries and the activities of transnational corporations should be monitored internationally.

The less developed countries are pressing for these reforms for a long time, but without much effect. Implementation of these reforms need the support of the developed countries. But it is difficult to believe that they will be ready to give up the advantages given to them by the present economic order.

# Chapter II

## A GENERAL SURVEY OF INDO-JAPANESE TRADE

Indo-Japanese trade relations have a tradition of centuries. Indian textiles reached Japan in the middle of seventh century with the advent of Buddhism in Japan. However modern commerce started only after Meiji Restoration. But at this time trade between these two countries was limited to exports of cotton, twist and yarn from India and import of copper from Japan.

In the late 19th century, industrialisation gathered momentum in Japan, and exports of cotton yarn began to be replaced by raw cotton. In the late 19th century and early 20th century, Indian exports consisted mainly of raw cotton, and import from Japan contained mainly of silk manufactures. In 1990s, while 46.6 per cent of India's total exports of raw cotton was directed towards Japan, 19.4 per cent of its import of silk manufactures came from Japan. In 1910, these shares were 38.2 and 45.3 respectively.[1] In 1920 the respective shares were 70.3 and 55.7.[2]

Japan started to export cotton manufactures to India though on a small scale, in the first decade of the 20th century. Its share was a meagre 0.3 per cent of India's total imports of this item. Japan's share in India's total imports grew slowly but steadily. During the years of

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1. B.M.Agrawl, Indo-Japanese Trade Relations - A Diagnosis (Jaipur, 1974), p.50.

2. ibid, p.56.

World War I, imports of this item from Britain fell dramatically. Japan made most of this opportunity and its exports of cotton manufactures to India increased sharply. In 1917 Japan's share in India's total imports of the item increased to 8.6 per cent and in 1919 it jumped to 27.9 per cent.[3]

There was a sudden fall in the imports of cotton manufactures from Japan soon after the World War I, when imports from the Britain were resumed. Its share increased gradually, in spite of the discrimination meted out against it by the British Indian government, under the pressure of British and Indian producers of cotton textiles. In 1938, Japan was the second largest importer as well as third largest exporter to India, which in terms of value accounted for 8.9 per cent of India's total exports and 10.1 per cent of its imports.[4]

Japan's involvement in World War II resulted in a decline of India's trade with Japan. Japan's share in India's trade remained very low even after the attainment of independence by India.



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3. ibid, p.50.

4. Abraham Joseph, <u>India's Trade with Japan: Constraints and Opportunities</u> (New Delhi, 1988), p.29.

## India's Trade with Japan in the Post-Independence Period

Trade between India and Japan during this period exhibits all characteristics of trade between a developed country and a less developed country. Exports from India consist mainly of primary commodities and their processed products. In 1960 food stuffs and raw materials accounted for 93.2 per cent of India's total exports to Japan. This ratio went down to 83.2 per cent in 1970 and to 78.4 per cent in 1979.[5] Exports of industrial products to Japan were negligible in 1960s. Share of industrial products increased to 16.3 per cent of total exports in 1970 and 21.3 per cent in 1979.[6] But most of the industrial products exported from India were light industrial products like textiles and leather products. We can say that exports from India generally were low value-added.

Imports from Japan during this period were mainly heavy industrial products like chemicals, iron and steel, machinery and transport equipments, which were high value added.

Following this is a commoditywise study of India's exports to Japan as well as imports from Japan.

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5. Japan External Trade Organisation, Ministry of International Trade and Industry, "White Paper on International Trade of Japan", various issues.

6. ibid.

India's Exports to Japan

Raw Cotton: Row cotton was the most important item in India's exports to Japan till iron ore replaced its importance in 1960s. India's exports of raw cotton stood at US $21.9 million constituting 28.4 per cent of India's total exports to Japan in 1966. In 1960 India exported raw cotton worth US $12.9 million, which was 12.9 per cent of India's total exports to Japan. By 1970, exports of this item went up to US$ 20.4 million, but its share declined to 5.0 per cent of total exports to Japan. This sharp fall in share was mainly due to the increased exports of iron ore to Japan. In 1979 exports of raw cotton stood at US $28.4 million, which was 2.7 per cent of total exports to Japan.[7]

Table 2.1

Share of Raw Cotton in India's Exports to Japan 1955-79

US $ Million

| Year | 1955 | 1960 | 1965 | 1970 | 1975 | 1979 |
|---|---|---|---|---|---|---|
| Value | 21.9 | 12.9 | 21.5 | 20.4 | 20.1 | 28.4 |
| in % | 28.4 | 12.9 | 15.5 | 5.0 | 3.1 | 2.7 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", various issues of 1956 to 1980.

It is interesting to note that exports of raw cotton has not grown much during these twenty five years. One

7. Japan External Trade Organisation, n.5, various issues.

reason is that the development of synthetic substitutes resulted in a decline in the demand for cotton. Another reason is the increased exports of raw cotton from the United States, USSR, Pakistan and Australia.

Iron Ore: India started exporting iron ore to Japan though in small quantities, much before World War II. But this came to an end with the involvement of Japan in the World War.

Japan was not allowed to produce steel in the immediate post-war years as the Occupation authorities feared rearmament. When steel industry started production, iron ore was supplied by the Philippines and Malaysia. As the ore supplied by these countries was of low quality, Japanese steel producers started searching for alternate sources.

At this time Japanese steel producers extended their purchases to Goa--which was a Portugese colony then, as a reliable source of quality iron ore. Sisigao mine in Goa was mechanised in 1951 with Japanese financial support. The mine started production in 1953.[8]

Japanese steel producers signed a number of agreements with Indian authorities for the supply of iron ore in the late 1950s. In 1960, the Indian Iron-ore Negotiating Committee concluded an agreement with the Japanese Steel

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8. Joseph, n.4, p.48.

Mission for the export of iron ore from the Bailadila mines to be shipped from Visakapatnam. This agreement provided for the supply of four million tons of iron ore every year from mid-1966 onwards.[9]

In 1962, the State Trading Corporation concluded three separate agreements with Japanese negotiators. The main agreement was for the provision of 11.25 million tons of iron ore between 1963 and 1968. In the same year one more agreement was signed for the provision of 4.45 million tons of iron ore.[10] In 1970, a massive iron ore export deal was concluded between Minerals and Metals Trading Corporation (MMTC) of India and eight Japanese steel mills for the supply of 71.5 million tons of iron ore between 1970 and 1979.[11]

Iron and steel industry, which is one of the basic industries in Japan, developed at a brisk pace during this period. So the continuous and uninterrupted supply of iron ore became crucial for the Japanese economy. Japan became the largest importer of iron ore in the world from 1963 onwards. In 1973, Japan iron ore imports reached 135 million tons, which was 35.3 per cent of the total iron ore imports of the world.[12]

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9. P.A.Narasimha Murthy, India and Japan: Dimensions of Their Relations, Documents (New Delhi, 1986), p.82.

10. ibid, p.83.

11. ibid, p.84.

12. United Nations, Yearbook of International Trade, 1975 (New York, 1975), p.1286.

Table 2.2

Share of Iron Ore in India's Total Exports to Japan

US $ Million

| Year | 1960 | 1965 | 1970 | 1975 | 1979 |
|---|---|---|---|---|---|
| Value | 40.5 | 104.4 | 198.9 | 329.6 | 362.2 |
| in % | 40.7 | 58.3 | 51.0 | 50.1 | 34.4 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade", various issues from 1961 to 1980.

Indian exports were unable to keep up with the pace of increasing demand for iron ore in Japan. Though India had large iron ore deposits, it could not produce enough to meet growing Japanese demand, due to the lack of infrastructural facilities. India's total exports of iron ore stood at 21 million tons in 1973, eighty per cent of which went to Japan.[13]

Japanese industry found Australia and Brazil to be convenient sources of supply. From 1970 onwards Australia has been the most important supplier of iron ore to Japan; Brazil also increased its share in Japan's iron ore imports. India's share decreased as the quantity exported stagnated in the 1970s. In 1975 shares of India, Australia and Brazil were 15.0, 45.6 and 17.9 respectively.[14]

13. ibid, p.1255.

14. United Nations, Commodity Trade Statistics (New York, 1977), p.2408.

Table 2.3

Percentage Shares of Major Exporting Countries in Japan Total Imports of Iron Ore

| Year | India | Australia | Brazil |
|---|---|---|---|
| 1960 | 18.9 | 0.5 | - |
| 1970 | 16.9 | 42.6 | 8.2 |
| 1975 | 15.0 | 45.6 | 17.9 |
| 1980 | 12.3 | 39.9 | 23.2 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", various issues.

## Constraints on the Export of Iron Ore

As stated earlier, Indian exports of iron ore failed to keep up with the increasing demand in the Japanese import market for iron ore. Deepak Nayyar identifies the following difficulties in the expansion of iron ore exports in the 1960s and 1970s:[15]

1. traditional iron ore industry was conducted by manual operations. For a rapid expansion of production, mechanisation of production is necessary.
2. Iron ore deposits in India were situated at distant places away from the coast, lack of development of the railways and link roads was a handicap in export promotion.

15. Deepak Nayyar, India's Exports and Export Policies in 1960s (London, 1976), p.142.

3. Inability of Indian ports to accommodate ships of large tonnage also proved to be a hazard to the promotion of exports.

The above stated handicaps made Indian exports expensive compared to the price efficient exports of Australia and Brazil.

Shrimps, Prawns and Lobsters: India is one of the largest producers of crustaceans consisting of shrimps, prawns and lobsters. In 1973, catches of shrimps by India were about 208 thousand tons, more than 10 per cent of the total catches of the item in the world.[16]

Consumption of shrimps by Japan increased sharply in the late 1950s and early 1960s. China was the largest exporter of shrimps then. India, Mexico and Thailand entered the Japanese market in the mid-1960s. India's share had shown consistent growth during the period under examination, while the shares of other two decreased.

In 1970, India's exports of shrimps, prawns and lobsters to Japan accounted for US $45.2 million which was 11.6 per cent of India's total exports to Japan. In 1975 export earnings from this item went up to US $91.2 million and constituted 19.7 per cent of India's total export

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16. Joseph, n.4, p.53.

earnings from Japan. Export earnings peaked in 1979 at US $261.1 million which was 24.8 per cent of total export earning from Japan.

Table 2.4

Share of Shrimps, Prawns and Lobsters in India's Export to Japan

US $ Million

| Year | 1970 | 1975 | 1979 |
|---|---|---|---|
| Value | 24.6 | 91.2 | 261.1 |
| in % | 6.3 | 13.9 | 24.8 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", (Tokyo), from various issues of 1971 to 1980.

Growth of Japanese import market for shrimps continued throughout the 1970s. India continued to be the largest supplier of this item to Japan throughout the period under examination. In 1970 its share was 11.2 per cent of total Japanese import of the item. In 1973 it was 18.6 per cent, in 1977 it was 20.7 per cent.[17]

Textile Goods: India started to export cotton fabrics to Japan in the early 1950s. But Japan's share in India's total exports of cotton fabrics was very low. Bulk of Indian exports was directed towards the USA and the U.K. In the 1970s USSR also entered the Indian export market in a big way.

17. Japan External Trade Organisation, n.5, various issues.

Japan was the largest exporter of cotton fabrics in the 1950s. But the late 1950s and early 1960s witnessed a structural shift in the Japanese industrial production. Chemical and heavy industries surpassed textile industry as the most important industry in terms of value of produce. Absolute level of production of textiles started to decline.

In 1964, Japanese government adopted liberalisation measures and imports began to grow. Till the early 1970s most of the imports came from developed countries. By 1970, there was a sharp increase in the export of cotton fabrics from less developed countries of Asia. In 1973, India's share in Japan's import of cotton fabrics was nearly 6.95 per cent. In 1974 it increased to 7.7 per cent and started to decline in subsequent years. In 1977 this share was 2.3 per cent and in 1979, 2.2 per cent.[18]

The share of textile goods in India's total exports to Japan in 1970 was 1.4 per cent. In 1973, India's exports to Japan increased remarkably and the share of the item increased to 6.2 per cent. The share of textile products declined to 2.6 per cent. In 1979, the share increased to 6.4 per cent.[19]

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18. Joseph, n.4.

19. Japan External Trade Organisation, n.5, various issues.

Table 2.5

Share of Textile Goods in India's Total Exports to Japan

US $ million

| Year | 1970 | 1975 | 1979 |
|---|---|---|---|
| Value | 5.5 | 13.8 | 67.4 |
| in % | 1.4 | 2.1 | 6.4 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", various issues.

Leather Products: Leather and leather products constituted an important item in India's exports to Japan. In 1955, India's exports of this item accounted for 2.2 million U.S. dollars which was 2.9 per cent of India's total exports to Japan that year. In 1960 export earnings from this item declined to 1.1 million US dollars constituting 1.1 per cent of India's total exports to Japan. In 1965, exports of this item to Japan worth 3.75 million US dollars constituted 2.1 per cent of all export earnings from Japan. In 1975, export earnings from this item were 15.1 million US dollars. By 1979 it increased to 34.7 million US dollars constituting 3.3 per cent[20] of total export earnings from Japan that year.

But India's share in Japan's total imports was declining throughout this period. India's share was 22.6 per cent of Japan's total import of this item in 1970. It

20. ibid.

declined to 18.2 per cent in 1975 and further declined to 9.5 per cent in 1980.[21] This decline was due to the increased imports from countries like United States and Pakistan.

Table 2.6

Share of Leather Products in India's Total Exports to Japan

US $ Million

| Year | 1955 | 1960 | 1965 | 1970 | 1975 | 1979 |
|---|---|---|---|---|---|---|
| Value | 2.2 | 1.1 | 3.8 | 5.1 | 15.1 | 34.7 |
| in % | 2.9 | 1.1 | 2.1 | 1.3 | 2.3 | 3.3 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", various issues.

A serious problem in export promotion was the development of synthetic substitutes. It is interesting to know that India was not able to capitalise the advantage of cheap labour in this labour intensive industry.

Iron and Steel: In the late 1960s India became an exporter of iron and steel. In 1970, earnings from India's export of iron and steel stood at US $42.5 million constituting 10.9 per cent of India's total export earnings from Japan. In that year, it was the second important item in the export basket to Japan in terms of value steel worth US $11.8 million. India could not maintain this high level of exports to Japan. In 1975 exports of iron and steel worth

21. ibid.

US $11.8 million. In 1979 it increased slightly to US $16.8 million constituting 1.6 per cent of all export earnings from Japan that year.[22]

Table 2.7

Share of Iron and Steel in India's Total Exports to Japan

US $ Million

| Year | 1970 | 1975 | 1979 |
|---|---|---|---|
| Value | 42.5 | 11.8 | 16.8 |
| in % | 10.9 | 1.8 | 1.6 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", various issues.

India's Imports from Japan

Textile Products: Textile products had been an important item in Japan's exports to India in the 1950s and early 1960s. Textiles constituted more than 10 per cent of India's total imports from Japan. But in the 1960s, when India's domestic production of textile item increased, imports from Japan declined considerably. In 1960, India imported from Japan textile goods worth US $7.1 million. In 1970 imports of textiles from Japan accounted for US $3.7 million. In the first half of the 1970s imports of textiles from Japan remained very low. But the last three years of the decade saw a massive increase in the exports of textiles from Japan. In 1977 imports of textile products

22. Japan External Trade Organization, n.5, various issues.

from Japan accounted for US $83.6 million. In 1979 export of textile from Japan stood at US $116.9 million, accounting for 11.1 per cent of India's all imports from Japan.

Table 2.8

Share of Textile Goods in India's Total imports from Japan

| Year | 1960 | 1965 | 1970 | 1975 | 1979 |
|---|---|---|---|---|---|
| Value | 8.2 | 6.3 | 3.7 | 10.4 | 86.52 |
| in % | 7.5 | 3.1 | 3.6 | 2.2 | 11.1 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", various issues.

Chemicals: Chemicals industry is considered to be one of the basic industries of Japanese economy from the 1960s onwards.[23] India had been importing chemicals in large scale throughout the period under study. In 1960, imports of this item were worth US $7.1 million. By 1965 imports increased to US $23.6 million constituting 11.6 per cent of all imports from Japan. Imports of chemicals increased alarmingly in the first half of the 1970s. In 1975 imports of this item stood at a staggering US $165.9 million constituting 35.2 per cent of all imports from Japan. By 1979 imports declined to US $87.3 million which was 11.2 per cent of all imports from Japan.

23. Joseph, n.4, pp.78-79.

Table 2.9

Share of Chemicals in Total Imports from Japan

| Year | 1960 | 1965 | 1970 | 1975 | 1979 |
|---|---|---|---|---|---|
| Value | 7.1 | 23.6 | 18.1 | 165.9 | 87.3 |
| in % | 6.5 | 11.6 | 17.6 | 35.2 | 11.2 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", various issues.

Machinery and Transport Equipments: Imports of various types of machinery by India have been increasing continuously ever since the country started large scale industrialization. The USA, UK and West Germany were the most important suppliers of this item. In the late 1960s USSR and Japan began to increase their shares in the imports of the item by India.

Machinery constituted the biggest item in India's imports from Japan. Imports from Japan include metal working machinery including machine tools, textile machinery, construction and mining machinery and also electrical machinery including generators, radio, television, telecommunication instruments and precision instruments.[24]

Imports of some types of machinery began to decline in the 1970s. Machine tools, construction and mining machinery and telecommunication machinery are examples. This

24. Agrawal, n.1, p.111.

was due to an increased domestic production of these items. Total imports of machinery also declined in absolute terms. This is mainly due to import substitution policies adopted by the Government of India and also because of the diversification of sources of import.

India's imports of transport equipments was also very important in terms of value. India used to import railway vehicles, motor vehicles and ships. Japan was the most important supplier of ships to India[25] throughout the period under study.

The US and the USSR were the most important suppliers of transport equipments. Increased shares of these countries were due to the import of aircrafts from these countries. The UK and the West Germany were also important suppliers of this item.

There was a decline in the import of transport equipments during the late 1960s. It again picked up in the 1970s. In 1975 import of this item worth US $66.5 million, constituting 14.1 per cent of total imports from Japan. In 1979 imports worth US $ 67.8 million, but its percentage share in total imports went down to 8.7 per cent.[26]

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25. ibid., p.114.

26. Japan External Trade Organization, n.5, various issues.

Table 2.10

Share of Machinery and Transport Equipments in Total Imports from Japan

US $ Million

| Year | 1960 | 1965 | 1970 | 1975 | 1979 |
|---|---|---|---|---|---|
| Value | 32.6 | 119.8 | 33.6 | 103.7 | 173.0 |
| in % | 30.0 | 58.4 | 32.6 | 22.0 | 22.2 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", from various issues of 1961 to 1980.

Iron and Steel: From the mid-1950s onwards, iron and steel has been one of the most important item in terms of value. From the late 1950s, Japan has been an important producer and exporter of steel. When India began to produce capital goods, import of high quality steel became essential.[27]

Imports continued to grow even after the commissioning of several steel plants in both public and private sectors. In the late 1950s, imports of this item constituted about 40 per cent of the total imports. In the early 1960s the share was even bigger. In the late 1960s, imports of iron and steel began to look down, but it picked up in early 1970s. In 1975 imports of this item worth US $178.2 million constituting 37.8 per cent of total imports from Japan that year. In 1979 imports stood

27. Agrawal, n.1, p. 115.

at US $281.4 million which was 36.1 per cent of all imports from Japan.

Table 2.11

Share of Iron and Steel in India's Total Imports from Japan

| Year | 1955-56 | 1960-61 | 1969-70 | 1975 | 1979 |
|---|---|---|---|---|---|
| | (Rupees in crores) | | | (US $ Million) | |
| Value | 1,230 | 2,831 | 1,488 | 178.2 | 281.4 |
| in % | 36.9 | 46.6 | 22.3 | 37.8 | 36.1 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade", various issues and B.M.Agrawal, Indo-Japanese Trade Relations - A Diagnosis (Jaipur, 1974), p.116.

Balance of Trade

Balance of trade between India and Japan was in favour of Japan till the mid-1960s. In the late 1960s, balance shifted in favour of India and continued so throughout the 1970s.

Table 2.12

India's Trade with Japan
(US $ million)

| Year | Exports | Imports | Balance |
|---|---|---|---|
| 1960 | 99.5 | 108.7 | -9.2 |
| 1965 | 179.0 | 203.5 | -24.5 |
| 1970 | 390.0 | 103.1 | 286.9 |
| 1975 | 657.9 | 471.4 | 186.5 |
| 1979 | 1053.0 | 779.5 | 273.5 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade", various issues.

## Conclusion

Indo-Japanese trade exhibited the features of trade between developed and less developed countries during the period under examination. Exports of India to Japan were either primary commodities or light industrial products while imports from Japan contained heavy industrial products. Here we can observe the unequal exchange between primary commodities and products containing low value-added and products containing high value-added. Increased processing and developing of primary commodities could have increased the value of its exports. Another aspect of India's exports to Japan during this period is that, India depended on a few items for bulk of its export earnings. Though exports had grown in a reasonable speed, much needed diversification did not take place, during the period under study.

# Chapter III

## INDO-JAPANESE TRADE IN THE 1980s: TRENDS AND ISSUES

The pattern of trade between India and Japan has undergone tremendous changes in the 1980s. India's imports from Japan, traditionally dominated by heavy industrial products, did not undergo any wide change. But the commodity strucure of India's exports to Japan witnessed unprecedented changes. In the early 1980s India's exports to Japan was dominated by food stuffs and raw materials, which contributed more than 80 per cent of its total export earnings from Japan. In this, two commodities namely iron ore and crustaceans - consisting of shrimps, prawns and lobsters - contributed more than 60 per cent of the total earnings. The share of manufactures was less than 20 per cent of the total export earnings. But in the late 1980s, nearly half of the total export earnings came from the export of manufactures.

Table 3.1

Percentage Share of Manufactures in India's Total Export Earnings from Japan in the 1980s

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Share of manufactures in % | 17.5 | 19.3 | 24.8 | 47.5 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", (Tokyo), various issues.

In India's exports to Japan, items like iron ore and shrimps, prawns and lobsters, recorded an unimpressive growth both in terms of quantity and value, while the exports of comparatively new items like textiles, iron and steel, chemicals and processed diamonds grew at a brisk pace.

Commodity structure of India's imports from Japan, stuck to its traditional pattern and continued to be dominated by heavy industrial products like iron and steel, machinery, transport equipments and chemicals. Imports of chemicals and machinery - both general and electrical - recorded a consistent growth; while the imports of iron and steel and transport equipments registered an unimpressive growth in the late 1980s, after a steady growth in the early years of the decade.

India's Exports to Japan

Shrimps, Prawns and Lobsters: Japan's import market for crustaceans - consisting of shrimps, prawns and lobsters - had been growing at a fast pace throughout the 1980s. But Indian exporters failed to respond to this increase in demand. India lost its position as the largest supplier of this item to Japan in the mid 1980s. Exports from Indonesia, China, Thailand and Taiwan increased tremendously during the 1980s. The steep increase in supplies of the emerging competitors, is a clear threat for India's position in the Japanese market.

Table 3.2

Percentage Share of Major Exporters in Japan's Total Imports of Shrimps

| | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Indonesia | 19.6 | 10.6 | 13.6 | 17.3 |
| China | 12.3 | - | 8.8 | 11.2 |
| Thailand | 6.0 | 6.7 | - | 10.3 |
| India | 17.5 | 12.8 | 13.7 | 8.0 |
| Taiwan | - | 3.0 | 17.6 | 8.0 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", (Tokyo), various issues.

In 1980, India's exports of shrimps to Japan accounted for US $193.9 million. In 1982 export earnings went up to US $279.1 million, and exports declined in the following years. By 1986 exports began to pick up and in 1987, export earnings from Japan reached an all time high of US $282.4 million. In the last two years of the decade exports again declined and stood at US $208.5 million in 1981.[1] The share of this item in India's total exports to Japan also declined during this period. Percentage share of this item in total exports was 19.1 in 1980. It

1. Japan External Trade Organisation, Ministry of International Trade Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), from various issues etween 1981 and 1990.

peaked to 24.9 in 1982 and declined in the following years. It stood at 21.8 in 1984, 18.5 in 1987 and 10.5 in 1989.[2] This decline is mainly due to an increase in the exports of other items.

Table 3.3

Share of Shrimps in India's Total Exports to Japan
(US $ Million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 193.9 | 255.4 | 259.6 | 208.5 |
| in % | 19.1 | 22.2 | 20.8 | 10.5 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", (Tokyo), various issues.

There has been a decline also in the quantity of this item exported to Japan. In 1981-82 exports were to the order of 49,100 metric tons. It declined to 38,498 metric tons in 1984 and again declined to 31,977 metric tons in 1988.[3]

The figures from Table 3.2 indicates a sharp decline in India's share in total imports of this item by Japan. There is a possibility of further losses in the market share unless India makes some efforts to develop new technologies of fish culture against an expected fall in

2. ibid.

3. B.Bhattacharya, "India-Japan Trade Relations: A Futuristic Analysis", Foreign Trade Review, vol. 25, no. 1, April-June 1990, p.41.

natural production. Mechanisation of the fishing crafts is to be speeded up along with the adaptation of modern methods of processing.

Marine Export Promotion Development Authority (MEPDA) established in 1973, has been providing technical assistance to farmers for commercial shrimps farming.[4] Indian Government also is providing financial assistance and export replenishment licences as incentives to fishery exports. A number of programmes has been posed to Japanese authorities for technical and financial assistance.[5]

Iron Ore: India exported to Japan iron ore worth US $424.5 million in 1980. In 1982 earnings from iron ore exports to Japan increased to US $437.7 million. In the next two years exports declined and earnings stood at US $385 million in 1984. But in 1986 exports again increased to earn US $448.3 million. In 1989 export earnings stood at US $499.5 million.[6] India's exports increased from 15.8 million tons in 1984 to 21.8 million tons in 1988.[7] This increase was due to the decision of the Government of India to reduce the price of iron ore, in 1985-86.

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4. Abraham Joseph, India's Trade with Japan: Constraints and Opportunities (New Delhi, 1988), p.163.

5. Bhattacharya, n.3, p.163.

6. Japan External Trade Organisation, Japan, n.1, various issues.

7. Bhattacharya, n.3, p.41.

The share of iron ore in India's total exports to Japan declined sharply in the 1980s. Export earnings from iron ore constituted 41.9 per cent to total export earnings from Japan in 1980. This share was 39 per cent and 34 per cent in 1982 and 1984. In 1987, it again declined to 27.9 per cent and stood at 25.3 per cent in 1989.[8] The share of iron ore in total export earnings declined in spite of an increase in net earnings. This is due to an increase in the export of some other items especially that of diamonds.

Table 3.4

Share of Iron Ore in India's Total Exports to Japan
(US $ Million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 424.5 | 404.4 | 448.3 | 449.5 |
| in % | 41.9 | 35.8 | 34.6 | 25.3 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

India is facing tough competiton from Australia and Brazil, in the Japanese import market for iron ore. The gravest problem faced by India in promoting exports is the stagnation in the production of iron ore. To overcome this, large scale mechanisation of mining operations is needed. Improvement of port facilities is also essential in this regard.

8. Japan External Trade Organisation, n.1, various issues.

Table 3.5

Share of Major Exporters in Japan's Imports of Iron Ore

| | India | Australia | Brazil |
|---|---|---|---|
| 1980 | 12.3 | 39.9 | 23.2 |
| 1983 | 13.9 | 45.6 | 21.5 |
| 1986 | 16.2 | 38.6 | 24.4 |
| 1989 | 15.9 | 40.2 | 25.0 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

Government of India is working out a new strategy for stepping up exports of iron ore. This strategy covers the development of new mines, improvement and expansion of mining operations as well as port facilities. This strategy may help India in gaining a better share in the Japanese import market for iron ore.[9]

Raw Cotton: India's earnings from raw cotton exports to Japan was US $24 million in 1980. Export earnings from this item declined steadily in the next two years to touch an all time low of US $12.1 million in 1982. Exports increased steadily in the next years to reach US $32.7 million in 1986. In 1987 earnings from cotton exports reached an all time high of US $52.8 million. In 1989,

9. Badar Alam Iqbal, "Trends in Japan's Major Imports from India", Monthly Commentary, vol. 31, no. 11, June 1990, p.25.

export earnings from this item stood at US $31.3 million.[10] The share of raw cotton in total export earnings remained very low throughout the 1980s. In 1980, percentage share of this item in India's total export earnings from Japan was 2.4 per cent. In 1982 it went down to 1.1 per cent. In 1987 it increased to 3.5 per cent and again decreased to 1.6 per cent in 1989.[11]

Table 3.6

Share of Raw Cotton in India's Total Exports to Japan
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 24.0 | 20.4 | 32.7 | 31.3 |
| in % | 2.4 | 1.8 | 2.5 | 1.6 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

The United States, Australia and China are the most important suppliers of raw cotton to Japan, providing the bulk of Japan's total imports. India's share was very low in Japan's total imports. But it has improved from 1.7 per cent in 1980 to 2.3 per cent in 1989.[12] India's share is expected to rise in the future. This is due to the fact that Japanese firms have claimed to have developed a very high quality fabric from Indian cotton. They are

10. Japan External Trade Organization, n.1, various issues.

11. ibid.

12. Japan External Trade Organization, n.1, various issues.

even prepared to transfer technology and invest in Indian companies.[13] If Indian exporters make use of this opportunity, exports of raw cotton to Japan may increase.

Leather Products: India's exports of leather products to Japan accounted for US $13.7 million in 1980. Exports of leather products by India declined sharply in the subsequent years, due to the lack of demand in Japan's import market to stand at a low US $9.6 million in 1983. Exports began to increase after 1983 and reached US $16.5 million in 1987. It went up to US $21.9 million in the next year and stood at US $19.8 in 1989.[14]

Table 3.7

Share of Leather Products in India's Total Exports to Japan
(US $ Million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 13.7 | 9.6 | 12.8 | 19.8 |
| in % | 1.4 | 0.9 | 1.0 | 1.0 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

The Republic of Korea, the USA and Pakistan are the main competitors in the Japanese market. There has been a consistent decline in India's share during the 1980s.

13. Iqbal, n.9, p.24.

14. Japan External Trade Organization, n.1, various issues.

The share of Pakistan also decreased over the years. These countries are capable of increasing exports due to the cheap labour available, which can make exports more competitive.

Table 3.8

Share of Major Exporting Countries in Japan's Import of Leather Products

| Year | Republic of Korea | USA | Pakistan | India |
|---|---|---|---|---|
| 1980 | 8.6 | 10.3 | 12.9 | 9.5 |
| 1983 | 7.7 | 17.0 | 14.7 | 9.5 |
| 1986 | 6.3 | 23.3 | 10.3 | 8.8 |
| 1989 | 13.5 | 11.1 | - | 8.3 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", (Tokyo), various issues.

Export promotion of this item is made difficult by non-tariff barriers imposed on exports. In fact this is the only item exported from India, which is affected by tariff-rate quota system. Imports up to quota limits are dutiable at 15-20 per cent. Imports above the quota limit are subject to tariff rates of 60 per cent and above.[15]

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15. Bhattacharya, n.3, p.42.

<u>Iron and Steel:</u> Iron and steel has become an important item in India's exports to Japan in the late 1980s. India's exports of this item was negligible in 1980. In 1982, export earnings from this item was US $13.6 million. In the last three years of the decade exports of this item increased at a brisk pace. In 1987, export earnings stood at US $26.1 million. In 1988, it increased to US $50.2 million. In 1989 exports further increased and accounted for US $80.6 million. [16]

Share of this item in India's total exports to Japan also has grown up. This share was 1.2 per cent in 1982. It went up to 1.7 per cent in 1987. In 1988 and 1989 iron and steel had shares of 2.8 per cent and 4.1 per cent of total export earnings.[17] India's share in Japan's import market for this item also has increased considerably. Till 1988, India's share was negligible. In 1988 India's share in Japanese import market of this item was 1.1 per cent. It increased to 1.6 per cent in 1989.[18]

<u>Table 3.9</u>

<u>Share of Iron and Steel in India's Total Exports to Japan</u>
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 3.9 | 9.8 | 12.0 | 80.6 |
| in % | 0.4 | 0.9 | 0.9 | 4.1 |

16. Japan External Trade Organization, n.1, various issues.

17. ibid.

18. ibid.

<u>Textile Goods:</u> Textile goods have emerged as a major item in India's exports to Japan in the late seventies. India's exports of textiles to Japan accounted for US $59.9 million in 1980. There was a steady decline in the exports of this item in the following years to stand at US $20.2 million in 1983. Exports picked up in the next year and accounted for US $64.5 million in 1984. Exports grew in the subsequent years to reach US $105.2 million in 1988.[19] In 1989, export earnings from this item stood at US $134.6 million. The share of textiles in India's total exports to Japan also fluctuated in the 1980s. In 1980 this share was 5.9 per cent. It went down to 1.1 per cent in 1983. Share of textiles was 5.8 per cent in 1988 and stood at 6.8 per cent in 1989.[20]

<u>Table 3.10</u>

<u>Share of Textiles in India's Total Exports to Japan</u>
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 59.9 | 20.2 | 53.5 | 130.6 |
| in % | 5.9 | 1.1 | 4.1 | 6.8 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", (Tokyo), various issues.

19. ibid.

20. ibid.

China and the Republic of Korea are the most important suppliers of this item. The share of China had been increasing throughout 1980s, while that of Korea was decreasing. India's share in Japan's import market for textiles was 1.8 per cent in 1980, 1.5 per cent in 1983, 1.8 per cent in 1986 and exactly 1 per cent in 1989. India can increase its exports if Indian producers capitalise on the low wage level with some efficient management and also through the modernisation of the industry.[21]

Diamonds: India started exporting non-metallic mineral products to Japan in a big way in the late 1970s. Among India's exports of non-metallic mineral products to Japan, diamonds are the most important item. India's exports of diamonds had been increasing steadily in the 1980s. India exported diamonds worth US $73.4 million in 1980. Exports increased to US $331.3 million in 1987. In 1988 it further increased to US $556 million and in 1989 it stood at US $600.6 million.[22]

The share of diamonds in India's total exports to Japan also increased at a rapid pace. From 7.24 per cent in 1980 to 10.2 per cent in 1982 and to 16.5 per cent in 1986. In 1988, share of diamonds in total export earnings from Japan was 30.8 per cent and in 1989, it stood at 30.4 per cent.[23]

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21. Abraham Joseph, India's Trade with Japan (New Delhi, 1988).

22. Japan External Trade Organization, n.1, various issues.

23. ibid.

Table 3.11

Share of Diamonds in India's Exports to Japan
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 73.4 | 132.8 | 213.7 | 600.6 |
| in % | 7.2 | 11.7 | 16.5 | 30.4 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

Belgium, India, Israel and the United States are the most important suppliers of this item to Japan. In terms of quantity, India ranked first, but in terms of value, India was second from 1988 onwards. This difference in terms of quantity and value is due to the fact that India specialises in the production of small diamonds.[24]

Table 3.12

Percentage Share of Major Exporting Countries in Japan's Import of Diamonds

| | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Belgium | 23.9 | 24.6 | 32.2 | 28.5 |
| India | 13.0 | 25.3 | 22.8 | 26.9 |
| Israel | 32.2 | 26.6 | 25.2 | 25.4 |
| USA | 13.0 | 14.1 | 12.1 | 10.8 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan", (Tokyo), various issues.

24. Bhattacharya, n.3, p.40.

In Japan the market for diamonds is still expanding due to continued prosperity. Diamond processing is a labour intensive industry. India can fare far better than its competitors, because labour is comparatively very cheap in India.

India's Imports from Japan

Textile Goods: Textiles has been a traditional item of India's imports from Japan. But increased domestic production of textiles has decreased the importance of textiles in India's imports from Japan. Imports of textile goods from Japan continued to decline in the 1980s.

In 1980, India imported textile goods worth US $76.8 million from Japan. Imports of this item peaked at US $129.4 million in 1981. Imports declined to US $56.5 million in 1986. Imports increased to US $71.3 million in 1989.[25] The share of textiles in total imports also declined during the 1980s. From 8.4 per cent in 1980, it declined to 2.7 per cent in 1986. But this share slightly increased to 3.5 per cent in 1989.[26]

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25. Japan External Trade Organization, n.1, various issues.
26. ibid.

Table 3.13

Share of Textile Goods in India's Imports from Japan
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 76.8 | 79.5 | 56.5 | 73.1 |
| in % | 8.4 | 5.6 | 2.7 | 3.5 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

Chemicals: India imported chemicals worth US $90.6 million in 1980. In 1982 imports were of the order of US $121.2 million but imports declined to US $89.9 million in 1984. In 1986 imports of chemicals began to look up, constituting US $125.3 million. In 1988, imports peaked at US $179.93 million.[27] The share of chemicals in total imports also fluctuated along with the value. From 9.9 per cent in 1980 to 7.7 per cent in 1984. After 1986, this share has not been keeping up with the increase in the value of imports. In 1986 the share of chemicals in total imports was 6.0 per cent. In 1987 it increased to 6.2 per cent and in 1988 again increased to 7.7 per cent.[28]

27. ibid.

28. ibid.

Table 3.14

Share of Chemicals in India's Imports from Japan
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 90.6 | 98.4 | 125.3 | 160.3 |
| in % | 9.9 | 6.9 | 6.0 | 7.7 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

Iron and Steel: Imports of iron and steel from Japan, reflects India's increased production of iron and steel in the 1980s. India was able to substitute large scale imports from Japan due to the increase in domestic production. In the 1980s, India also began to export iron and steel to different countries including Japan. But Indian production of iron and steel in the 1980s fell much short of domestic consumption.

In 1980, India's imports of iron and steel from Japan accounted for US $321.1 million, which constituted 35.1 per cent of India's total imports from Japan. In 1982 imports of this item accounted for an all time high of US $417.6 million constituting 29.7 per cent of total imports from Japan that year. In 1984, imports dropped to US $239.4 million, which was 20.5 per cent of total imports. In 1986 imports again increased to US $409.3 million constituting 19.5 per cent of all imports from

Japan that year. By 1989, imports again decreased to US $299.2 million, about 14.8 per cent of total imports from Japan.[29]

Table 3.15

Share of Iron and Steel in India's Import from Japan
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 321.1 | 330.2 | 409.3 | 299.2 |
| in % | 35.1 | 23.1 | 19.5 | 14.8 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

Genral Machinery: From 1983 onwards, this is the largest item imported from Japan. General machinery consists mainly of industrial machinery including metal working machinery, textile machinery, construction and mining machinery and paper manufacturing machinery. Imports of this item by India has been growing steadily from the mid-1980s, due to the liberalisation policies adopted by Government of India. Japan's share in India's imports of machinery was 23.9 per cent in 1982-83. It went up to 27.5 per cent in 1984-85 and this share keeps on growing.[30]

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29. ibid.

30. R.K.Pandey and Sumitra Chisti, "Indo-Japanese Trade", in U.S.Bajpai, ed., India and Japan: A New Relationship (New Delhi, 1988), p.221.

Imports of machinery from Japan were to the tune of US $156.4 million in 1980. Imports increased to US $350.6 million in 1983. In 1986 exports further increased to an all time high US $545.6 million in 1986. Imports decreased marginally to US $503.0 million in 1988 and stood at US $486.3 million in 1989. The share of machinery in the total imports from Japan also went up in 1980s - from a low 17.1 per cent in 1980 to 24.5 per cent in 1983, and to 26.0 per cent in 1986. This share was 24.1 per cent in 1989.[31]

Table 3.16

Share of Machinery in India's Imports from Japan
(US $ Million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 156.4 | 350.6 | 545.6 | 486.3 |
| in % | 17.1 | 24.5 | 26.0 | 24.1 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

Electrical Machinery: Electrical machinery also is a fast growing import item from Japan. This item includes television, telecommunication equipments, integrated circuits, semi-conductors and computers. Japan was able to increase the exports of this item due to the liberalisation measures adopted by the Government of India.

31. Japan External Trade Organization, n.1, various issues.

Imports of electrical machinery increased from US $131.1 million in 1981 to US $202.3 million in 1983. Exports further went up to US $317.6 million in 1986 and US $484.6 million in 1989. Share of this item in total imports from Japan also increased at this speed. The share increased from 10.9 per cent in 1981 to 14.1 per cent in 1983. It became 15.1 per cent in 1986 and went up to 24 per cent in 1989.[32]

Table 3.17

Share of Electrical Machinery in India's Imports from Japan

(US $ million)

| Year | 1981 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 131.1 | 202.3 | 317.6 | 484.6 |
| in % | 10.9 | 14.1 | 15.1 | 24.0 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

Transport Equipments: Transport equipments are a very important item in India's imports from Japan. Imports of these items from Japan in the 1980s consisted mainly of motor vehicles and spare parts. Due to a large number of collaborations in the mid-1980s, imports grew in the 1980s. In the late 1980s domestic production increased to substitute most of the imports.

32. ibid.

In 1980, India's imports of transport equipments accounted for US $68.6 million, constituting 7.5 per cent of total imports from Japan. In 1983 imports increased to US $182.1 million, about 12.7 per cent of total imports. In 1986 imports of this item from Japan peaked at US $378 million constituting 18 per cent of total imports. After 1986, imports declined sharply to stand at US $179 million in 1989.[33]

Table 3.18

Share of Transport Equipments in India's Imports from Japan
(US $ million)

| Year | 1980 | 1983 | 1986 | 1989 |
|---|---|---|---|---|
| Value | 68.6 | 182.1 | 378.0 | 179.0 |
| in % | 7.5 | 12.7 | 18.0 | 8.9 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

## Balance of Trade

The balance of Indo-Japanese trade in the 1980s was heavily in favour of Japan, except for the year 1980. In 1981 India had a deficit of US $140.5 million in its trade with Japan. The deficit went up to US $299.9 million in 1983 and further increased to US $712.4 million in 1986.

33. ibid.

This was about 55 per cent of India's exports to Japan that year. However, trade deficit with Japan declined sharply in the late 1980s and stood at US $40 million in 1989.[34]

Table 3.19

India's Trade with Japan
(US $ million)

| Year | Exports | Imports | Trade Balance |
|---|---|---|---|
| 1980 | 1014.3 | 914.8 | 99.5 |
| 1983 | 1130.8 | 1430.7 | -299.9 |
| 1986 | 1297.0 | 2009.4 | -712.9 |
| 1989 | 1977.5 | 2018.0 | -40.0 |

Source: Ministry of International Trade and Industry, Japan, "White Paper on International Trade of Japan" (Tokyo), various issues.

## Conclusion

There had been big changes in the pattern of the trade between India and Japan, especially in the commodity structure of Indian exports. Traditional export items like iron ore and shrimps declined in importance while comparatively new items like diamonds, iron and steel and textiles gained greatly in this share of total exports. But still Indian exports are low value added compared to its imports

34. ibid.

from Japan. In the 1980s when India was trying to upgrade its technology this is bound to happen. India can increase its exports if technical collaborations are combined with some buy back arrangements, thus removing constraints to exports. Diversification of the exports is needed to overcome the dependence on two or three items.

Though non-tariff barriers are very tough in Japan, India's exports are not much affected by them. Leather products is the only item affected by non tariff barriers. India's exports under Japan's Generalised System of Preferences (GSP) had been very small during the 1980s. India's position is 12th in terms of Japan's imports under GSP.

India's trade with Japan exhibited all the characteristics of the trade between a developed country and a less developed country. Trade balance was heavily in favour of Japan, causing some balance of payments problems for India. But in the late 1980s, India's exports increased and the deficit came down at a rapid pace. But India has a long way to go to reach some kind of equality with Japan in its trade relations.

# Chapter IV

## SUMMARY AND CONCLUSIONS

The less developed countries are facing problems in every field of economic activity. The continuation of unequal specialisation of production led to an unequal exchange between developed and less developed countries. Exports of less developed countries are mostly primary commodities - food stuffs and raw materials - which are low value-added while exports of developed countries consist mostly of heavy industrial products which are high value-added.

This unequal exchange often leads to adverse balance-of-payments situations. To avert this crisis, less developed countries borrow heavily from both bilateral and multilateral credit institutions.

Less developed countries are not able to earn stable and remunerative prices for their primary products. This is due to the fact that their products are processed, exported and marketed by transnational corporations from developed countries. The efforts of less developed countries in the direction of processing their own products are checked by the developed countries by imposing higher tariffs for the processed products. Often these tariff increases are not proportional to the local value-added.

The 1970s and the 1980s witnessed an increase in the exports of manufactured items from the less developed countries. This has caused concern to developed countries and they responded by erecting tariff and non-tariff barriers to these exports. The light industrial products exported by the less developed countries face very high tariff and non-tariff barriers in the world trade, while the heavy industrial products exported mainly by the developed countries face the lowest barriers in world trade. Another problem faced by the less developed countries is a long run decline in the terms of trade for the exchange of primary products for industrial goods. This led to the deterioration of the economic position of the less developed countries in the world economy.

The General Agreement on Tariffs and Trade (GATT) has failed to represent the interest of the less developed countries. The working of GATT is based on the principles of Most Favoured Nation (MFN) and reciprocity. These principles prevent the less developed countries from getting any preferential treatment in the international trade order, which is necessary for them to achieve self-sustained growth. The less developed countries view GATT as a rich man's club, managed in accordance with primary interests of the developed countries.

The institutional characteristics of multilateral monetary and financial institutions also are not congenial to the uninhibited development of less developed countries. The voting and drawing powers in the IMF and the World Bank are directly proportional to the subscription of the country concerned. Moreover the conditionalities to be satisfied in getting loans from these institutions are often against the interests of the borrowing less developed countries.

The less developed countries depend on developed countries for advanced technology. But the less developed countries face two problems related to it, which are against the interest of the less developed countries. These are the appropriateness of the technology and the cost of the technology transferred.

The less developed countries borrow extensively to avoid balance-of-payments problems and to finance their development efforts. Now this debt has accumulated to such large amounts that, these countries are finding it difficult even to repay its interests. This is another major problem faced by the less developed countries.

When we examine the trade relations between India and Japan, it can be found that the trade relations between these countries show all the characteristics of the trade between a developed and a less developed country. As Japan was able to develop an industrial base in the early 20th century, they began to export manufactured items to India. India's chief imports from Japan at that period were cotton and silk manufactures. India's exports were dominated by a single item - raw cotton - at this time. This pattern continued till the immediate postwar years.

In the 1950s, India began to export iron ore to Japan. Raw cotton continued to be the most important item of export to Japan. But raw cotton lost its position in total exports, when shrimps expanded its share in the late 1960s.

There had been an increase in the share of manufactured products in India's export basket to Japan. Till the early 1960s, the share of manufactures was negligible. In 1965, manufactures constituted 3.1 per cent of India's exports to Japan. This share increased to 16.3 per cent in 1970 and to 21.3 per cent in 1979. India's imports from Japan were dominated by heavy industrial products throughout the post-World War II era.

Generally speaking, primary commodities dominated India's exports to Japan. Till the mid-1960s, raw cotton and iron ore accounted for most of India's export earnings while from late seventies, iron ore and shrimps dominated the export basket. Manufactured products accounted for less than 20 per cent of the total export earnings from Japan. In contrast, India's imports from Japan consisted mainly of heavy industrial products like chemicals, machinery and transport equipments. Unequal exchange is evident in this pattern of trade.

The commodity structure of India's exports to Japan underwent tremendous changes in the 1980s. In the early 1980s primary commodities - raw materials and food stuffs - accounted for more than 80 per cent of the total export earnings. In this iron ore and shrimps constituted more than 60 per cent of total export earnings. In the late 1980s, manufactured items like diamonds, iron and steel, and textiles increased their share in the exports and by the end of 1980s, they constituted nearly half of India's exports to Japan in terms of value.

The share of primary commodities, especially that of iron ore and shrimps, declined in India's exports to Japan in the 1980s. This decline is not due to a decline in the quantity or value of the exports, but because of the increased exports of other items. The exports of these items stagnated over the years due to a stagnation in production caused by the lack of modernisation in these sectors and also by the lack of infrastructural facilities.

During the same period, the share of manufactured item in he total exports to Japan increased tremendously. This increase is mainly due to an increase in the exports of diamonds. The share of diamonds in total exports to Japan increased from 7.2 per cent in 1980 to 30.4 per cent in 1989. Imports of other manufactured items like textiles and iron and steel also registered an impressive growth in terms of both quantity and value.

India's imports from Japan continued to be dominated by heavy industrial products like chemicals, iron and steel, machinery and transport equipments. In the 1980s imports of capital goods increased greatly due to the liberalisation policies adopted by the Government of India. Among the imports from Japan, chemicals and machinery - both general and electrical - recorded an impressive growth. Imports of iron and steel and transport equipments registered a decline in the late 1980s after a steady increase in the early years of the decade.

In spite of the increase in the share of manufactured exports to Japan, Indo-Japanese trade is still an unequal exchange. India's exports are mostly light industrial products and processed diamonds which are low value added compared to the imports from Japan.

India can increase its exports to Japan if technical collaborations are combined with some kind of buy back agreements, thus removing the constraints to exports. India still is depending on a few items for the bulk of its export earnings from Japan. There should be some kind of a diversification of exports to overcome this dependence.

The balance of trade between India and Japan was heavily in favour of Japan in the 1980s, except for the year 1980. In 1981 India's trade deficit with Japan was US $140.5 million. The deficit increased to a staggering

US $712.4 million in 1986. But in the late 1980s, the trade deficit declined to stand at US $40.5 million in 1989.

India's trade with Japan still shows the characteristics of unequal exchange. Development of India's technology base and infrastructural facilities are necessary for an improvement in favour of India in Indo-Japanese Trade. India's industrial structure needs modernisation to facilitate exports to Japan. To conclude, India has a long way to go to achieve some kind of equality in its trade with Japan.

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