

CHAPTER TEN

SUMMARY

CONCLUSIONS

AND

SUGGESTIONS

This chapter explains the summary, conclusions and suggestions emerging from the study-

SUMMARY

Japan has been actively involved in India's economic development since 1952. The relations between India and Japan began Centuries ago, The Japanese interest and connect with Buddhism around the 7th century. India found unflinching support from Japan and in due course of time the two countries became quite close. Now the economic relationship between India and Japan has become much closed. Cooperation between these two countries has led to tremendous growth in certain important areas. Indo-Japanese economic relations have been expanding both in quality and quantity since early nineties. This expansion has kept pace with the progress of economic liberalization in India. This has motivated both the countries to work together to contribute to peace, stability and prosperity of this region. India, with its remarkable economic development and active diplomacy, is drawing the attention of the world and Japan welcomes the rise of India. The reason for this is that both India and Japan share the same basic values, such as democracy, human rights, and market economy. Both the countries have reaffirmed to continue to promote commonalities and identify areas of convergence of mutual interests and cooperation between them in a constructive manner. This would definitely contribute to the advancement of their overall bilateral relations.

The objectives of this research were to study the performance of Indo-Japan trade and suggest effective measures and strategies for strengthening the trade with Japan for the development of Indian economy. We also studied the impact of Japanese AID and FDI on Indian economy and the opportunities of Indian economy with Japan since 1991. The study is based on secondary data. The material for the thesis has been collected from various books, reports and papers published in various issues of different journals and from various sectors. It has used documents and reports with government and private sources to collect information on Indo-Japanese trade relations. Data sources used include the department of finance, Government of India, ministry of foreign affairs of Japan and Japan international cooperation agency etc. I visited many library & website to collect data and notes included in the study. The tentative period of present study was 1991-92 to 2011-12 but in some cases, it has covered whole period from 1948-49 to 2011-12 especially to describe the

India's trade. Study of India's trade is carried under two categories as of India's trade with some countries and India's trade with Japan and the period from 1901-1942 briefly study of India's trade with Japan. The methodology of the study is largely desk research. Secondary data were processed and analyzed through **STATISTICA** software packages. **ARIMA** model and curve fitting have been used to study the trends of India's total trade and Indo–Japan trade during post reform period for time series forecasting. The data has been analyzed using mainly descriptive methods and mathematical & statistical tools. Simple statistical tools like Ratio, Percentage, Average, Variations, Moving Average, & figure diagrams were applied to analyse, interpret, and find out the results.

CONCLUSIONS

- ❖ India has been a very important trading nation since ancient period, but the restrictive policies of trade and tariff pursued by the colonial government (Britain) adversely affected the structure, composition and volume of India's foreign trade. Consequently, India became an exporter of only primary products and an importer of finished consumer goods. As a result, low productivity, absence of capital formation, former technology and unemployment. Since independence, Government of India followed policy of import substitution to make rapid growth in industrilisation and entered into many bilateral and multilateral agreements with developed countries & International financial Institutions to import modern technology, foreign capital & Aid for Initial development. India's trade was characterized by what is technically called an "import substitution" trade strategy. Commonly, this strategy is called 'inward looking'. However imports kept on rising till 1991 and also through reform period (1991- onwards). The volume of India's foreign trade in terms of the total value of exports and imports has been rising considerably since 1948-49. The total value of Indian trade rose from Rs. 11009 million in 1948-49 to Rs. 12247.1 million in 1950-51 to Rs. 17999 million in 1960-61 to Rs. 31600 million in 1970-71 to Rs. 192598.5 million in 1980-81 to Rs. 757510.0 million in 1990-91. During this period (1948-90), imports rose at a faster rate than exports. Indian exports were confined to mainly traditional items of primary goods. But Indian imports increased in this period, because of increasing imports of petroleum, capital equipment & machinery, raw materials and food grains. As a result, India continued to face balance of payment crisis in mid 80s and early 90s. The economy was facing problems of declining foreign exchange, growing imports without matching rise in exports and high inflation.
- ❖ The Government of India changed its economic policies in 1991 due to a financial crisis and pressure from international organizations like the World Bank and IMF. Therefore, in 1991, the Government of India removed License, Permit and Quota (LPQ) regime and implemented Liberalization, Privatization and Globalization (LPG) to attract foreign trade and investment. Policy of Import Substitution has been replaced by Export-Led

Growth. India now (1991) follows a five-year trade policy, though some fine-tuning of policies is made annually, depending on the evolving trading conditions and industry felt need, in regard to regulation & liberalization of import and promotion & liberalization of exports. Policy modification was carried out as per new priorities and goals.

- ❖ The Indian and Japanese economies are highly complementary. India is relatively “Capital-Scarce” but “Labour -Abundant”. Japan’s endowments are the reverse. Such complementarities should provide for vibrant and beneficial trading opportunities. Indo-Japan Comprehensive Economic Partnership Agreement (**CEPA**) which came into force on 1 August 2011. The CEPA is expected to improve the trade between the two countries. CEPA is more comprehensive and ambitious in terms of a holistic coverage of many areas like goods, services, investment, competition, government procurement, Intellectual Property Rights, Custom Procedures and other trade related issues. It aims at eliminating tariffs over 94% of items traded between India and Japan over a period of 10 years. Japan will abolish tariffs on about 97 percent of India’s exports to Japan, where as India will do so on about 90 percent Japan’s export to India. It provides a very strong foundation for further strengthening our economic and commercial ties.

- ❖ In the pre-plan period, Japan ranked sixth in India’s total trade. In the first five- year plan, she improved her position in respect of total trade to fifth and ranked fourth in the second five-year plan. In the third five- year plan the ranking reversed was from fourth to fifth position. Japan has improved her position, taking fourth place in the annual plans and fourth plan. She improved further to take 3rd place in fifth plan and second in rolling plans. It however ranked third during sixth five-year plan. Japan has improved her position to be placed on 2rd rank in the seventh plan and subsequent annual plans (1990-1992). She ranked 3rd in the eighth and ninth plan and fourth in the tenth and eleventh five-year plan. The total value of Indo–Japan trade rose from Rs. 195.9 million in 1950-51 to Rs. 960.5 million in 1960-61 to Rs. 2868.7 million in 1970-71 to Rs. 13465.9 million in 1980-81 to Rs. 62840.0 million in 1990-91 to Rs. 166148.0 million in 2000-01 and further to Rs. 604815.0 million in 2010-11, representing a rise of 3105.7 times. Barring few years (1953-54, 1957-58, 1958-59, 1965–66, 1987-88, 1996-97, 2000-01,

2009-10), when it recorded declines. It has recorded substantial increases throughout the period. The share of India's trade with Japan has increased from 1.6 percent in 1950-51 to 12.03 percent in 1973-74. Indo-Japan trade in India's total trade in 1986-87 is a very important because in this year total trade between Indo-Japan share of 12.06 percent. The volume of Indo-Japan trade in terms of the total value of trade has been rising considerably since 1950-51. But during the period 1986-87 to 2010-11 India's trade with Japanese share declined from 12.06 percent in 1986-87 to 2.24 percent in 2010-11.

- ❖ The reason for declining Japanese share in India's total trade (import & export), may be found in India's political & strategic shifts towards ASEAN countries, New Asian Tigers (like South Korea, Taiwan, Thailand, Vietnam and Malaysia) and her adoption of "Look East Policy". In the same period, these countries were growing rapidly and now become manufacturing hubs global economy. India also grow rapidly after liberalization in 1991. There was massive upsurge of domestic demand. The 'New East Asian Economies' offered consumer goods in comparison to Japan at competitive prices. The decade of 1990-2000 witnessed Chinese economy growing at double digit after its opening in 1978 and China emerging as the manufacturing engine of the global economy, producing cheaper exports goods. Chinese's share in Indian trade has also steadily increased with the Indian economy slowly becoming the consumer of cheap Chinese exportables. Chinese economy offered two great advantages, cheap labour and cheap raw materials for global investors and thereby producing a range of consumers' goods. Accessible to lower income groups of consumer as reasonable prices in India among to the countries. After liberalization of Indian economy in 1991, and development of industrial and transports sectors. The demand of petroleum products of also greatly increased as a consequence, India's oils imports of 'Middle East Countries' increased substantially, and therefore share of 'Middle East Countries' total volume of Indian trade increased accordingly. After India conducted nuclear test in pokhran in 1998, Japan put economic sanctions stopping ODA and substantially reducing export & import. She asked India to rollback its nuclear weapon programme.

- ❖ Table 5.26 shows the top 15 countries with their total trade (only trade in goods) with India in financial year 2012-13. UAE was the top trading country of India's total trade. It was followed by China, United States, Saudi Arabia, Switzerland, Singapore, Germany, Hong Kong, Indonesia, Iraq, Japan, Belgium, Kuwait, Iran and South Korea etc. India-Japan bilateral trade reached US \$ 18613.13 million. India's exports to Japan were US \$ 6099.06 million and imports from Japan were US\$ 12514.07 million. The share of the India-Japan bilateral trade has been hovering around 0.6% (in 2005) & 1% (in 2012) of Japan's global trade, while it was in the range of 3.24 to 2.35% of India's total trade in the last ten years (2002-03 to 2012-13).

- ❖ The share of India's imports in world's imports has increased from 0.65 percent in 1990-91 to 1.98 in 2009-2010 to 2.5 in 2013-14. The share of India imports from Japan was around 7.1 percent during 1991-92. It fell sharply to 4.2 percent in 2001-02 and 2.5 percent in 2011-12. The items of imports were Crude materials, Crude rubber, Synthetic rubber, Mineral fuels, Chemicals, Organic chemicals, Plastic material, Manufactured goods, Petroleum & their products, Rubber manufactured, Iron & steel, Non-ferrous metals, Machinery transport and Power generating. Out of these items, Chemicals, Manufacture goods, Iron and steel products, and Power generating machine accounted for over 62 percent of import from Japan. The share of Crude materials in the total imports was sizeable in the 1991-2011. The imports of Crude rubber had risen by two and half time by the end of fourth phase (2006-11). There has been significant growth in the imports of Synthetic rubber, Mineral fuels, Plastic materials, Non-ferrous metals, Petroleum and Rubber manufactured. The import of Chemicals from Japan has been increasing. It sharp in total export was at its climax in the fourth phase when it accounted for about one-seventeen of total imports. India is the largest importer of Japanese Manufactured goods. Its share in total imports was at its remarkable growth in the third phase (2001-06) and recorded great fall to fourth phase.

- ❖ India's share in world's exports has shown a rising trend. Its share was only 0.52 percent 1991. The share of India's exports in World's exports 0.57 percent in 1993-94 to 1.25 percent in 2009-10 to 1.7 percent in 2013-14. India is among 15 leading exporters of

agricultural products in the world. The share of India's exports to Japan was around 9.2 percent during 1991-92. It fell down sharply to 3.4 percent in 2001-02 and 2.1 percent in 2011-12. It enjoys twelfth position among India's customers abroad in recent times. India has been the main exporter of agriculture and allied sector in Japanese market. Food and live animals share in total exports was at its climax in the second phase (2001-06). The export of Fish and fish preparation, Iron ore & concentrate, Crude materials and Metalliferous ores to Japan has been increasing during this period (1991-2010). Indian fruits are getting huge popularity in Japanese market. Japan's deep liking for Indian mangoes can be well apprehended. Since the current crop imported from Philippines and Indonesia is sold at a high premium. Indian mangoes are of same quality but are much less expensive than crop from the south East Asian countries. The exports of Coffee & Tea, Cocoa & Spices had risen by two times by the end of fourth phase (2006-2011). The prospects for pushing up exports are rather uncertain. Increasing home consumption, lower quality, high cost of producing tea, lack of publicity, poor salesmanship are some of the major problems with which India is confronted with in the International market. The export of cotton in total exports declined sharply. This could be attributed to some extent to the severe competition among exporting countries, restrictive practices by several importing countries. The exports of Textile yarn fabrics registered remarkable growth in the third phase (2001-06). India had been the main exporter of Diamonds & Non metallic mineral ware in Japanese markets. The export of Diamonds & Non-metallic mineral ware has been declined sharply after the first phase. Their shares in total exports were at its climax in the first phase (1991-96).

- ❖ India is the recipient of Japanese aid since 1958. The development assistance is available in the form of loans repayable in foreign currency and in grants and commodities. Japan's interest in India's economic development has been ascendant since then. Japan is at present the largest bilateral ODA partner of India. The first loan agreement between India and Japan, as a member of Aid-India consortium was signed in 1958. Japan assistance to accelerate economic development of India is highly appreciated. Japan's assistance has been particularly helpful in the Infrastructure sector, Health sector, Environment sector and Forest sector. Japan's ODA for India is one of the important tools to strengthen

Japan-India relations set forth by Japan-India strategic and global partnership. Enhancing human exchanges between Japan and India provides a basis for building strong bilateral relations. Infrastructure development is one of the main concerns in India present time. Many infrastructure projects (like Power & Transport) operated with the help of Japanese ODA. Japanese ODA is also supported in other sectors (like Health, Education, and Environment & Forest) in India. These projects have thus largely achieved its objectives, and its effectiveness is high. As a result, the projects have contributed directly and indirectly to industrial development, employment creation and the improvement of people's living standards in Indian cities. The main objectives of Japan's ODA

[a] Promotion of economic growth (power and transportation).

[b] Improvement of health, poverty and environmental issues.

[c] Human resources development and people to people exchange.

- ❖ FDI is desired as it is a non-debt financial capital. So, FDI plays an important role in development of developing country. FDI policy has been gradually liberalizing to make the market more investor friendly in India since 1991. Japan was ranked fourth in FDI investing country it constituted 7.2 percent of total FDI in India in 2001-2012. Japan is at present the largest bilateral ODA partner of India. In the present scenario, it is seen that the percentage of the FDI from Japan has been fluctuating during 1991-92 to 2011-12, because a few Japanese investors feel that ground level difficulties like labour laws, taxes, legal and regulatory framework are high in India. Japan was reluctant to invest in India through FDI and is interested in investing through ODA. Japan is considering that the FDI inflows in India are more risky and complicated compared to the ODA. Therefore, Japan has been investing largely through ODA in India. However, Government of India has liberalized rules and regulations in the favour of FDI recently and it is expected that it will increase FDI inflows in future from abroad in general and Japan in particular. The Japanese FDI inflows in India are mainly concentrated in few states namely Tamil Nadu, Haryana, Maharashtra and Karnataka are most attractive states in term of FDI from the Japan. Because, these states have market power, availability of natural resources, quality of physical and human infrastructure, high economic freedom, and ease to do business environment etc. Japanese FDI has been of

great help in infrastructure, services, computer software & hardware, telecommunications, automobiles industry & power sector etc. The Drugs & pharmaceuticals companies have attracted largest share of Japanese FDI. Automobile industry is the second highest in terms of financial support to India. Automobile industry accounted for 16 percent FDI inflows during 2000 to 2014. The technological and financial collaboration has been increasing in different sectors like Automobile, Biotechnology, Agriculture, Hydrocarbon fuels, and Information & Communication Technology in India. The technological collaboration has resulted in increasing the production, efficiency of the machinery and reducing the cost of the production in the country. The successful collaborations are in Suzuki-Maruti, Hero-Honda, and Toyota-Kirloskar etc in the country. These companies are popular in term of quality, efficiency and to easily affordable to each section of the society in the country.

SUGGESTIONS

- ❖ The study urges the Indian policy makers to focus more on diversification of Indian trade basket, as the share of India's imports and exports are only 1.98 and 1.25 percent in the share of world's imports and exports in 2009-2010.
- ❖ Japanese economy is one of the important trading partners of India, in terms of imports & exports. However, trade flows between both the countries have shown a consistent and significant decline during 1990s. In the early years of the 21st century, India adopted the "Look East Policy" and concentrated upon improving trade relations with ASEAN countries and New Asian Tigers (like South Korea, Taiwan, Thailand, Vietnam and Malaysia) at the cost of Japan. The EXIM Policy focus is on diversification of India's trade to other countries, especially Latin America, Africa, parts of Asia and Oceania. Therefore, it is suggested that the government of India may make new friends but should not ignore old friend like Japan.

- ❖ In this period (1991-11), Japan has been India's largest bilateral AID donor country. But Indian economy has not been able to utilize the entire Japanese aid throughout this period. The policy makers should establish standard AID policies in India. Whereby, Japanese AID can be fully utilized. Japan's ODA can play a major role by building capacities to induce new technologies and ideas. Substantially, Japan's assistance should be fully utilized for development of Indian economy.
- ❖ It is also suggested that the government must promote inclusive & sustainable development through Japanese ODA by further strengthening of health, education, R&D, sanitation water management, seaports & tourism, and environment & forest sectors.
- ❖ The strengthening bilateral economic relations and the rising importance of India for Japan could bring higher FDI & aid which could potentially raise Indo-Japan bilateral trade as well.
- ❖ The really dramatic increase in FDI in India took place after 1991. But India was at the 15th position in the world in 2012. As foreign investors feel those ground level difficulties like labour laws, inefficient bureaucracy, red-tapism, and the rampant corruption, taxes, legal and regulatory framework are high in India. It is suggested that the policy makers should ensure timely implementation of projects and Avail to healthy market.
- ❖ The CEPA will enhance cooperation possibilities in many areas. The existence of political will, complimentary comparative advantages and appreciation for each other's national interests enable a sustainable relationship between India and Japan.
- ❖ There is good scope for building up of a triangular trade. A joint partnership between Japanese firms and Indian manufacturers can be arrived at so that materials and some components can be imported from Japan, the labour part being done in India, and the final produce can be sold to a third country or Japan. Technically, this strategy will be called 'Make in India'.

- ❖ It is high time that Japanese enterprises make an in-depth study of the far-reaching implications of India's new economic policies and identify the specific areas of Indo-Japan co-operation. However, for such co-operation to succeed, it would be necessary to find ways & means to reduce the existing trade deficit between the two countries.
- ❖ **ARIMA model (0, 1, 1)** has been used to study the trends of India's total trade and Indo-Japan trade during post reform period for time series forecasting. As a result, the model can be very useful for policy making with regard to India's trade partners as predicted figures is much closer to actual figures. So, this can be used for designing future course of action in policies formulation for trade with Japan.
- ❖ Finally, it is suggested that the policy makers should create more business-friendly policies and laws on both sides.
