

CHAPTER FOUR

THE POLICY FRAMEWORK OF INDO-JAPAN RELATIONS

This chapter is an attempt to analyze the trade policies of Japan after World War II. Japan was not very trade loving country before 1960s. During 1960s Japan realized the importance of trade and designed trade policies in such a way that it helped her economy to grow. This was to be achieved by expanding volume of exports termed as export led growth. This chapter also highlights the trade policy relationship between India & Japan. Indo-Japanese relations are very old. Japan had special relation with India, when Buddhism was introduced to Japan via the Korean peninsula. India's friendship with Japan after the war helped a great deal when Japan returned to the global level. Since 1952, Japan and India maintained diplomatic relations and enjoyed friendly relations based on economic and technical cooperation¹⁰⁴. Japan and India are major players in Asia sharing strategic interests and increasing common values such as democracy, human rights and market economy. Both countries have been strengthening relations with each other in many areas & in economic sphere in particular.

4.1 Characteristics of Japanese economy

Japan is an oldest monarchy system in the world. It is an archipelago of over 3000 islands located in the Pacific Ocean. Japan has enjoyed 'miracle economic growth' of the 1960s and has become the world's second biggest economy (present time world's third biggest economy). It is a member of the United Nations, G8, OECD and APEC. Japan is a developed country with high living standards and the longest life expectancy in the world (HDI reports). It is a world leader in technology, machinery, and robotics.

Japan is a highly nationalistic and patriotic country. People have Single minded devotion for their country's economic prosperity. In spite of epochal, social and political reformations after the modernization which began during the Meiji restoration (1868 –1912). The country remains traditional with coexistence of cultural

104 J. K. Sachdeva, "Indo Japan Trade Potentials in the Context of Bilateral Relations", <http://www.rcssindia.org/artihtm636.htm>

disposition of exclusive and receptive tendencies in technology & maintaining precision and quality in their products. The country is known for borrowing knowledge and techniques from other countries and improving upon them. It's using all means and methods to penetrate overseas markets. Japanese technology is giving importance to research, development and training, willing to pay heavily for the purchase of designs from foreign countries, and perfect in the art of acquiring foreign technology at the appropriate stage and exploiting it commercially. It has been recognizing both management and labor should work together for productivity improvement as a major national need¹⁰⁵.

Japan is an advanced nation in terms of technology and industrial development. At present Japan is in a position to work with India in many of its national development programmes. With the fast changing global scenario, Japan recognizes the importance of mutual co-operation for continued prosperity, economic growth and development of the Asian nations. So for as Japan is concerned, its economy started growing from the end of 1948 at such a phenomenal tempo during the post war period as to surprise the rest of the world, that phenomenal growth has been one of the most extraordinary economic stories of all the times^(106.107).

Many questions have been frequently asked by Indians as to the factors that brought about the phenomenal economic growth of Japan after the World War II and the nature of the export promotion schemes undertaken for the rapid increase of Japan's export trade. The factors that effected the economic growth of Japan can mainly be classified into three categories first; it was the vigorous equipment investment among the private enterprises to win keen competition in the domestic market as well as overseas, Second, the availability of skilled labour in abundance owing to the education system in Japan. Third, the high rate of personal savings constituted an important factor and source of funds for private equipment investment. Besides the above, the Japanese economy was basically based on the determination of the people and their efforts and inherent creative power. The rapid growth of the Japanese economy resulted in significant changes in the industrial structure and accelerated the export trade. Other main factors for the promotion of export trade

105. Behl, R. & Mago, L. D.(1996), Indian Major trading partners profiles. January, IIFT, New Delhi, P 197-202.

106. Business today, September 22 - Oct 6, 1996. P. 46

107. Economic and political weekly, March 30, 1996, N0. 13, P. 48-49.

included the Japan's strict adherence to the quality control of their products and commitments in terms of timely delivery of goods.

4.2 Japanese economic activities

Industrial sector is core sector of any economy; normally, industrial policies and in general economic policy reference to. Japanese policies to promote industry were primarily carried out by officials of the ministry of finance, but involved other government agencies as well. These men were convinced that if national independence was to be preserved, the nation's economic well being had to be secured. It was extremely fortunate for Japan that men of such calibre rose to position of leadership in the few years following the Meiji restoration. It was after the establishment of the Meiji government in 1868, that Japan over threw feudalism and embarked on capitalistic development, lagging about a hundred years behind the industrial revolution of the western powers who were forcefully carrying out their colonial policies in the east.

It should be recognized, however, that assets from the past together with substantial measures of good fortune contributed to the success of Japan's economic modernization. As early as in the Tokugawa period, the people had become impressed with the importance of commerce. Roads and shipping routes had been developed, indicating thereby that an economic structure on a nationwide scale had already come into existence. In the traditional sector of its economy, Japan possessed ideal commodities for export in the form of silk and tea. The foreign exchange earning power of these goods was absolute for Japan & by exporting them. Japan was able to procure the materials necessary for its industrialization. With the beginning of foreign trade, it was necessary for domestic industry to adopt capitalistic production methods to compete with the foreign goods which were produced at lower costs in modern factories.

4.3 Industrial Policy framework for Japanese Industry

The Industrial policy changes should be in accordance with the changes in economic development and the environment. Japan has undergone such changes during the various stages of its economic development throughout the course of its evolution. The industrial policy has been formulated and implemented consistently on the basis

of the vigorous competition in the private sector which characterizes the Japanese economy¹⁰⁸. Japan's successful economic recovery was largely due to the timely implementation of government policies which fell in line with the fundamental market mechanism and served to encourage entrepreneurial activities. The Japanese industrial policy is only one form of government involvement in industrial activity, or just one type of an industry-related policy.

There was a policy at the time of Japan's high growth period, which promoted a system of tax free, small saving accounts. With personal saving in Japan at a relatively high rate, these accounts played an important role in the maintenance of the country's capital supply. Government related financial institutions played a vital role in directing various pressing economic issues by way of introducing appropriate policies effectively, more specifically, they assisted in realizing governmental objectives such as the structural shift to heavy industry, the liberalization of both trade and capital & the improvement of the international balance of payment situation.

4.4 Patent System- An overview

Patent system refers to granting of the exclusive rights to a process innovation by patent office. Patent rights are a source of monopoly power. However, the theoretical case in their favour is that in their absence markets provide insufficient return to the innovator¹⁰⁹. A patent grants monopoly power with the intention that the flow of profit is sufficient to reward the innovator and to provide an incentive to create inventions¹¹⁰. One of the purposes of the patent system is to protect and encourage inventions by granting exclusive right to inventors for a certain period of time, in return for the disclosure of the art pertaining to their inventions, and thus contributing to industrial development. However, problems exist in certain fields, such as pharmaceutical, where long periods are necessarily consumed in the testing and examination required for obtaining approvals provided under national legislation's designed for ensuring product safety, during which periods the benefit of exclusive rights cannot be enjoyed despite the validity of patent rights¹¹¹.

108. Foreign collaboration policy, February (1991), Indian investment center, IIC, New Delhi.

109. David W. Pearce, (1981), "The dictionary of modern economics" first edition, Macmillan Press.

110. John black, Nigar hashimzade, Gareth myles, (2013), "Dictionary of Economics" fourth edition, Oxford University Press.

111. The American Economic Review, September (1996), Menasha unisossion, USA, P. 252 & 854.

In Japan, the first appearance of a trial for the protection of inventions was in 1871, when the provisional regulation of monopoly, was enacted. However, these were abolished one year later, not having found any inventions to be protected. In 1883, the Paris convention for the protection of Industrial property was concluded. The patent monopoly Act was enacted in Japan in 1885, generally acknowledged as the first patent law of Japan. Since then the Japanese patent system has undergone many changes and is still moving forward in the course of modernization including the adoption in 1976 of patents for substances and the multiple claim system^(112, 113). The Japan Patent Office (**JPO**) is strongly encouraging international co-operation through training in the field of industrial property. In co-operation with Japan International Co-operation Agency (**JICA**), training for many officials from developing countries such as the People's Republic of china and the ASEAN countries, was undertaken.

The Indian patent system is also more than hundred years old. The first Act in India pertaining to patent rights was passed in 1856 (ACT VI of 1856). Which was further recanted under Act xv of 1859 with modifications. The provisions of this Act were incorporated from the UK patent Act of 1852 and in the Indian Act of 1859. Monopolies were called "exclusive privileges" like in Japan, in India too; the patent system has undergone many improvements. The present patent Act in India has given statutory recognition to many principles enacted in the decisions of British courts. However, it is to be mentioned here that the decisions of the British court are not binding in the Indian courts. Yet the analysis of various problems discussed in the British courts was very valuable in the context of arriving at a solution for similar problems which may occur in India.

The industrial property system has an international character. But with the increase of economic activities and exchanges of technology among nations, Japan finds trends of active unification and simplification of procedure on the international level and co-operation in patent examination, as seen in the progress proceeding from the established system based on the Paris convention since the ministerial declaration in Uruguay in 1986, General Agreement on Tariffs and Trade (**GATT**) started with negotiation on Trade Related aspects of Intellectual Property rights (**TRIP**) including

112. Market survey, for select minor forest products in France, UK. and Japan, New Delhi, IIFT, P. 5 & 15.

113. Report 25th Joint meeting report of Indo-Japan cooperation Committee, 9-10 March 1994, New Delhi, FICCI.

trade in counterfeit goods in order to reduce the distortions and impediments to international trade.

4.5 World Trade Organization (WTO)

The Uruguay round of GATT negotiations concluded on April 15, 1994 at Marrakesh, marocco. The WTO agreement is in fact the Uruguay round agreements whereby the original GATT is now a part of the WTO agreement which came into force from January 1, 1995¹¹⁴. There were 77 member countries of the WTO on January 1, 1995. Now there are 160 members¹¹⁵. India is one of the founder members.

WTO is a new statutory structure for multilateral trading; under this new structure all members have equal mutual rights and obligations. Until the WTO was formed, developing countries that were in the GATT enjoyed all the GATT rights but were exempt from most of its obligations to liberalize trade-obligations that applied only to the developed countries. Such special treatments were phased out over seven year up to 2002. There is also a new dispute settlement mechanism with much more power to enforce rulings over none–tariff barriers than existed in the past. In1997, three strands of negotiation that had been left incomplete in the Uruguay round were completed, involving agreements to lower trade barriers in telecommunications, financial services, and information technology. These agreements were important because they greatly increased the amount of trade covered by WTO rules and dispute settlement procedures.

4.6 World Intellectual Property Organization (WIPO)

The Patent Co-operation Treaty (**PCT**) came into force on 24th January, 1978 and from 1st June, 1978, it become possible to file international applications. This treaty was ratified by 24 countries in many 1979 by many advanced industrialized nations including USA, Japan, Russia, Germany, France and UK. The PCT was meant for international co-operation in the field of patents. It is administered by the World Intellectual Property Organization (**WIPO**) from its head quarters at Geneva. Its main aim is to obtain legal protection for invention¹¹⁶.

114. Jhigan.M.L, (2012), 'International economics' vrinda pub., P. 464.

115. The latest information about the WTO can be found on the inter–net at www.wto.org.

116. Samamy, A S. 1993, Trade and industry in Japan, New Delhi, prentice Hall of India, private LTP.

4.7 Foreign Trade Policy of Japan - An overview

Since the mid 1960s Japan has moved from being one of the most restrictive of trading nations to being at least on paper one of the most open nations of the world. In particular, the 1980s saw radical transformations of tariff rates. The completion in late 1993 of the Uruguay round of multilateral trade talk has resulted in further liberalization of the tariffs and quotas for Japan's agricultural imports. Perhaps the most significant step was the 1980 revision of the foreign exchange and foreign trade control law. This ended the validating system for imports and abolished restrictions on the means of payments for imports. Other packages of liberalization measures since then have included tariff reduction, simplification of import, testing procedures, expanded import quotas on agricultural products, the provision of foreign currency denominated loans for certain imports, and more open government's procurement arrangements. Even so, many foreign firms believe that their products are not fairly treated in Japanese market. In part, this may reflect the complicated web of distributors and subcontractors and the loose ties between seemingly unrelated firms. The very complexity of Japan's subcontracting and distribution systems often looks like a large and elaborate non-tariff trade barriers. During 1989-90, highly talks and pledges these kinds of structural barriers have been receiving increasing and controversial attentions. The July 1993 meeting of the board was held to discuss the Japanese Article IV consultation. The board noted that over the past two years. The Japanese economy had experienced its sharpest downswing since the mid 1970s. The recession was mainly due to the cyclical downturn and the inevitable correction of the factors that had characterized the preceding boom and had contributed to its unsustainable pace¹¹⁷.

It has been observed that in the modern day's world the country excellent price performance and pursuing structural reforms would benefit Japan and the world economy and would constitute on important contribution to the global co-operative efforts to bolster confidence and strengthen prospects for a durable non inflationary world expansion. Futher, the directors of the board observed that conditions had significantly since mid 1991. Although a number of directors considered that the recent strengthening of the yen and the absence of inflationary pressure called for a further easing of monetary policy, a number of other directors suggested caution in

117. 25th Joint meeting, Report of Indo-Japan, O P. cit. P. 14.

guiding interest rates down further. They also commended the authorities for implementing large economic stimulus package in both late 1992 and early 1993. They viewed the support to domestic demand provided by these packages as critical to economic recovery¹¹⁸.

Japan has taken manifold dimension to further promote liberalization of foreign trade. Together with continuing efforts to advance the ongoing Doha Development Agenda negotiations, Japan has also moved forward bilateral negotiations on Economic Partnership Agreements (EPAs), which have made positive steps and complemented the multilateral trading system. Japan aims to strengthen comprehensive economic partnerships by promoting EPAs which include not only trade of goods and services but also investment, intellectual property, competition and development of business environment, with traditional bilateral FTAs consisting of tariff elimination and reduction at the core¹¹⁹. Japan's plans of fostering exports have taken two paths. The first was to develop world-class industries that can initially substitute for imports and then compete in foreign market. The second was to provide incentives for firms to export.

4.8 Foreign Investment Policy of Japan

There are several government agencies involved in the promotion and development of foreign economic relations. The Ministry of International Trade and Industry [MITI] in Japan is, however, the principal government department having responsibilities relevant to direct foreign investment in the country. Foreign investment does not require prior government approval. However, there is a requirement that foreign investments must be reported to the central bank¹²⁰.

Foreign investment in the form of technical assistance may require advance notice to be given to the ministry of finance. The Japanese government has not developed any specific incentives directed toward foreign investors. Both foreign and domestic investors are eligible for any incentives offered. Incentives include those that may be offered by geographic areas of the country and may include land availability, tax concessions grants, or other inducement. Wide varieties of incentives

118. International Monetary Fund, IME, April 1993, PP. 14, 15

119. Report of the India – Japan joint study (2006) Group, PP. 4

120. Behl. R and Mago, L D. OP. Cit., P. 197, 200, 202

are available to eligible companies in the form of grants for Research & Development and long-term & low interest loans. Industrial areas have been developed by the government for sale to industrial enterprises. There are no restrictions on the percentage of a company that may be held by foreign investors. Foreign investment is considered to include loans to Japanese companies.

4.9 Important alliance between India and Japan

- (i) Agreement on commerce between Japan and India in 1958 to strengthen trade relation.
- (ii) Business co-operation Committees [India–Japan and Japan–India] in 1966.
- (iii) Japan–India trade talks on overall bilateral trade and investment began in 1978.
- (iv) Japan–India Joint declaration of 2001 for further enhancement of bilateral trade.
- (v) Declaration of strategic and global partnership in 2006.
- (vi) Japan and India signed Comprehensive Economic Partnership Agreement [CEPA] on 16th Feb, 2011.

Japan has been extending bilateral economic assistance of India since independence. The first loan agreement between India and Japan, as a member of Aid–India consortium was signed in 1958. Japan has been India’s single largest bilateral AID donor country¹²¹. Ten point agreements between the Japanese mission and the FICCI was announced of 4th February, 1966. One of the points of these agreements related to the establishment of an India-Japan trade alliance board in India and a Japan-India trade alliance board as its counterparts in Japan. These committees aim at fostering friendship and understanding between the business communities of India and Japan and at promoting trade and economic co-operation between the two countries. The business co-operation committees have been holding joint meeting in both the countries, in alternate years, to achieve the objectives for which they have been established. The 1980s marked the beginning of a new phase in Indo-Japan relations with the establishment of joint venture- the Maruti-Suzuki plant to manufacture cars

121. Report of the ‘INDIA–JAPAN’ study group 2006, Role of Japan ODA in promoting economic Partnership.

in India¹²². The science and technology agreement signed during Rajiv Gandhi's visit in November 1985 increased the frequency of exchange in this area. Indo-Japanese relations off smoothly during the early post cold war years but ran into serious difficulties following India's nuclear tests in May 1998. Japan suspended all political exchanges and even economic assistance was frozen for nearly three years. In August 2000, however, Japanese PM Yoshiro Mori made a five day visit to India that helped propel ties forward. However, to quite a few analysts Japan's strong bilateral, strategic and global partnership with India was redefined with the visit of then PM Koizumi in April 2005. The changing politico-economic-security-energy-nuclear needs and ambitions of both India and Japan slowly persuaded each other, to enter into "probably the most important bilateral relationship". When PM Manmohan Singh visited Japan during December 13-15, 2006, it was roses and roses all the way, launching of a joint task force to develop an Economic Partnership Agreement or Comprehensive Economic Partnership Agreement (EPA/CEPA).

4.9.1 Comprehensive Economic Partnership Agreement between the Republic of India and Japan (2011)

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.

The objectives of this agreement are to: –

- (a) Liberalize and facilitate trade in goods and services between the parties.
- (b) Increase investment opportunities and strengthen protection for investments and investment activities in the Indo–Japan.
- (c) Ensure protection of intellectual property and promote cooperation in the field thereof.
- (d) Promote cooperation for the effective enforcement of competition laws in Indo–Japan.
- (e) Improve business environment in Indo – Japan.

122. Indo-Japanese joint ventures: Has "Japanese-style management" been successfully accepted in India. Hitotsubashi Journal of Economics, (2006), P.69-98. @ Hitotsubashi University.

- (f) Establish a framework to enhance closer cooperation in the fields agreed in this Agreement. And
- (g) Create effective procedures for the implementation and application of this agreement and for the resolution of disputes.

Indo-Japan Comprehensive Economic Partnership Agreement (**CEPA**) which came into force on 1 august 2011. 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 ^(123, 124).

123. Okamura tadashi, 2011, "India-Japan Economic Partnership, the way forward" Lecture by chairman of JCCI at the meeting hosted by FICCI, New Delhi, 19 Sept, 2011.

124. Urta Shvjiro [2011], "Regional Economic Integration in East Asia and Japan-India Comprehensive Economic Partnership Agreement presentation at ICRIER, New Delhi, 6 Sept, 2011.

Conclusion

Prior to 1960 Japan had negligible trade. But during 1960's it embarked on export led growth. As a consequence, Japanese economy transformed initiating a process of converting into a developed nation. Japan is an economic power and India is an emerging economic power. India has a great potential for development. Proper trade policy can be of much help for India in releasing this potential. Trade policies of India and Japan should be framed in such a manner that both countries can harness their potential. Historically balance of trade has been in favour of Japan. This needs to be changed which can be done only by improving quality of our export to Japan and by diversification of export goods.