Chapter Six
HARMONISATION OF THE TRADE POLICIES OF INDIA AND JAPAN

6.1 Introduction

The previous chapter endeavoured to identify one of the factors that possibly contributed to the phenomenon of the unsteady growth of India's manufactured exports to Japan. It is observed in the analysis of the production cost structure of India's two manufactured exports to Japan during the study period, cotton fabrics and handtools, that a slower increase or decline in efficiency factors with respect to wages and material input cost partly affected the competitive position of India's manufactured exports in the Japanese market.

It can be said that the growth in India's manufactured exports to the Japanese market was constrained by the structure of the manufacturing sector as a whole. To extend further this argument Panchamukhi¹ pays attention to the particular situation of developing economies which influences the trade flow. It is asserted that the level and the commodity composition of exports and imports is closely related to the development strategy adopted

by the planning authorities and the determination of the
trade flow cannot be viewed in isolation into the process
of overall planning for allocation of resources. Besides
the gravity of the economy like national income and popu-
lation, factor proportions and endowments and technology
on which the traditional theories of international trade
are based, Panchamukhi points out the importance of the
economic institutional settings in the case of determination
of the trade flow of developing economies, including the
economic and commercial policies of the state.2

Assuming the above, this chapter attempts to
investigate the policy background that oriented the develop-
ment of the India-Japan trade during the study period. Though
there has existed no specific policies meant for the pro-
motion of India's manufactured exports to Japan, India's
policy background for its manufactured exports to Japan
is assessed based on the policies directed to the export
manufacturing sector, especially those to the labour-intensive
manufacturing that have particular implications for the
Japanese market. The analysis of the policy background limits
itself to pointing out the problems derived from the experi-
ence of the operations of the policies which have been

2. Among the institutional settings, the following factors
are included: the product-heterogeneity, quality and brand
problems; parallel black markets and distortions; and
inflows of capital. See, ibid., pp. 16-19.
discussed in various studies.³

To complete the assessment of India’s trade policies, it is also necessary to examine the policies not only in the context of its domestic economy, but also in the international environment. It is important to see how India’s policies were harmonious with Japan’s so that the

³ V.R. Panchamukhi attempts to evaluate India’s trade policies and measures in the quantitative analysis. For the price-based policies like tariffs, export taxes and subsidies for enhancing production for trade, the magnitude and the effect of the policies is measured in terms of price-distortions, making use of the approaches such as the effective rate of protection which takes account of the implicit tariff rate both for the inputs and the output of a production activity, and the domestic resource cost per unit of net foreign exchange earned or saved. The non-price-based policies such as incentives implicit in taxes, subsidies and industrial licensing are for enhancing domestic production in general while exchange control, import quotas and import licensing are for enhancing production for trade. Taking an example of import licensing, Panchamukhi examines the nature of the end-use structure of imports. The premium rates on import licenses are assumed to play a role of proxy for price effect of the apparently non-price-based policy. He concludes that the primary effect of the trade policies, implicit or explicit, in general, is more or less based on the structure of domestic relative prices in relation to the international prices. The major factors identified as determinants of the trade behavior of India are: (i) technology factor; (ii) factor proportions and factor endowments; (iii) structure of input prices and product prices; (iv) trade policies and measures implemented by the government. It is found that the policies and the technology factor seem to have run at cross-purposes in some cases, implying that some of the former are redundant and that among the trade policies, those directed to the domestic production are more influential on trade flow than those specifically meant for export expansion. See, ibid., pp. 63-195.
maximum gains can be realised while trading with Japan. On the other hand, it is equally important for Japan's trade policies to be harmonious with the Indian economy so that it can achieve higher trade growth, commensurate with India's industrial strength. After an overview of trade policy during the study period, the discussion focuses on the preferential tariff treatment offered by Japan to the developing countries for their exports to the Japanese market, which will provide implications for assessing the effects of Japan's policies for manufactured imports from India.

6.2 India's Trade Policies for Manufactured Exports 1951-1973

6.2.1 Overview of India's Trade Policies

India's trade policies have basically kept the objective of 'controls' in view since the Import and Export Control Act of 1947 was set out to prohibit, restrict or otherwise control imports and exports. The evolution of India's trade policy is quite clearly reflected in the Five Year Plans. Given the relative comfortable position of foreign exchange reserves in the Korean war boom, the First Five Year Plan was not conscious of the trade policy as an integral part of planning. However, since the Industrial Policy Resolution of 1956 was announced, a massive flow of imports began. The Indian Government tried to keep the
balance of trade position in equilibrium, by placing all the import activities under its control. In 1955, a comprehensive Import Trade Control Order was issued which brought almost all imports under the purview of licensing. The main objective of import licensing system was by and large to effect a right kind of import structure so as to conserve scarce foreign exchange reserves, while ensuring adequate supply of inputs to the industry and protecting the indigenous industry.

The Second Five Year Plan was pessimistic about the export growth, which originated from the following two factors. Firstly, there was a widespread belief that India's traditional primary exports such as tea and jute would be facing an unfavourable trend in the world markets in the future due to their less price- and income-elasticity. Secondly, it was felt that India's non-traditional exports, mainly manufactures, which constituted a tiny proportion of the country's export earnings at that time, were not able to secure sizable export markets until industrialisation was well under way. 

After experiencing the critical balance of payments deficit during the Second Plan period, the Third Plan reflected that 'one of the main drawbacks in the past
has been that the problem of exports has not been regarded as an integral part of a country's development effort under the Five Year Plans.... (Export Promotion) should be an integral part of the overall framework of economic planning.\(^5\)

Since then, the export policy in India's planning intended to act on the commodity composition of export trade as well as the volume of exports.

Among the export commodities which were planned to be expanded, the manufactured exports were given a special emphasis for promotion, which is clear from the amount of incentives given by the government. Before the devaluation of Indian rupee in 1966\(^6\), the basic framework

---


6. The explicit aims of the devaluation in 1966 was "to bring domestic prices in line with external prices to restore and enhance the competitive power of exports", as well as "to provide a solution to the country's trade and payment problem." See for example, Planning Commission, Government of India, \textit{Fourth Five Year Plan}, op.cit., p.96. However, the most critical purpose for which the devaluation was set out may have been the latter, if the problems India was facing in the mid-1960s were taken into consideration. Despite larger utilisation of foreign aid, there was frequent recourse to borrowing from the IMF. The temporary suspension of foreign aid in 1965 put further pressure on the already strained foreign exchange position. In the same year, it happened that larger imports of foodstuffs were required. Moreover, since the devaluation was set out along with the policy package to counteract the effect of devaluation on exports, the "net" devaluation was much smaller than the "gross" devaluation. In case of traditional exports, export duties were levied and there was negligible 'net' devaluation. On the other hand, the devaluation was
of India's export incentive system was established, which is characterised with the schemes such as import replenishment, duty drawback and cash assistance.\(^7\) The importance of expansion of manufactured exports was further emphasised by the Export Policy Resolution of 1970. The Resolution, first of all, affirms that the export promotion is one of the important aspects of India's planning and economic growth. Among the commodities which were considered to have export potentialities, manufactured exports were identified here as the dynamic element of India's export expansion.\(^8\)

neutralised largely on the non-traditional exports where the export subsidies were removed. J. Bhagwati and T.N. Srinivasan attempted to assess the 'net' rate of devaluation for major export commodities. See for details, J. Bhagwati and T.N. Srinivasan, Foreign Trade Regimes and Economic Development - India, op.cit., pp. 83-97.

7. Although, along with the devaluation in 1966, the trade liberalisation measures were announced, the controls were still imposed on imports in the following years. Also, the export incentives which was eliminated at the time of devaluation, such as the budgetary tax credits and the import entitlement schemes, were revived in the later years in different forms, embodying, in practice, many of the features of the schemes prior to devaluation. See for details of the export incentives after devaluation, ibid., pp. 99-110. The changes in the major incentive schemes such as fiscal concessions and import entitlements after the devaluation are outlined in the following section.

Since the export promotion policy became an integral part of India's planning and development, a series of export incentive measures have been set out. It can be said that an emphasis has been laid on the capital-intensive sector in India's export incentive system. The study made by J.W. Mellos and U. Lele supports this argument. They maintain that India's export policy has been in favour of capital-intensification of exports. They found that an 18 per cent rise in the capital intensity was observed during 1964 to 1969. Such India's export policy is partly a reflection of India's industrial policy. According to the same study, out of 19 major industrial categories, the 4 most capital-intensive increased their proportion of investment, value added in production and employment, while the four industrial groups with the lowest capital-intensity decreased their share in each of the three measures, all of which were producers of final consumer goods.

6.2.2 India's Incentive System for Manufactured Exports

D. Nayyar categorises the export incentives set out during the study period into five groups: (1) direct

---


10. In this study, the measures which are more general in their
financial incentives; (2) fiscal concessions; (3) incentives implicit in import policy; (4) subsidisation related explicitly to inputs; (5) marketing assistance.

6.2.2.1 Direct Financial Incentives

The compensatory support programme for exports through cash subsidies, which was announced soon after the devaluation, is the most important among the export incentives belonging to this category. About 500 items received cash assistance at the rates ranging between 3 per cent and 25 per cent of f.o.b. value during the study period, which were fixed separately for each product group.

---

purposes and bear indirectly on export profitability are not dealt with, because they are too far a field from the purpose of the study. Such measures include industrial licensing, foreign collaborations and other industrial policies meant for increasing production in general. The measures discussed here are only those which have been taken with a distinct purpose to promote exports.


12. Financial assistance given to the export industries to support the expenditure incurred in projects aimed at developing export markets is also classified into this category. The operation of such assistance has been administered by the Market Development Fund which was instituted by the government in 1963. See for details of the assistance, Lok Sabha Secretariat, "Fourteenth Report of the Fifth Lok Sabha's Estimate Committee", Ministry of Foreign Trade Export Promotion Measures (New Delhi), 1972, pp. 227-233 and 359-360.

13. Ibid., p.229.
About 80 per cent of the items which received cash assistance were manufactures and most of them were non-traditional capital-intensive manufactures (see Table 6.1).\(^\text{14}\) Over the period from 1966-67 to 1970-71, the average rates of export subsidy for all the industries worked out at 3.1 per cent of the f.o.b. value of exports. The total disbursement increased rapidly from Rs. 30.5 million in 1966-67 to Rs.288.0 million in 1970-71.\(^\text{15}\)

The specific criteria by which cash assistance rates were fixed during the study period have never been clear. V. Joshi identifies two criteria which seemed to have been in operation for a number of years.\(^\text{16}\) Firstly,

\(^\text{14}\) The amount of subsidies given to each industry has never been published by the government. The figures quoted in this context are from the estimates made by the Fifth Lok Sabha's Estimates Committee in 1972. See ibid., pp. 228 and 229.

\(^\text{15}\) Ibid., pp. 370 and 371.

\(^\text{16}\) V. Joshi, "India's Export Incentive System," in United Nations Industrial Development Organisation ed., Industry and Development: No. 2 (New York: United Nations) 1978, p.63. In a statement submitted to the Fifth Estimates Committee of the Lok Sabha, the government explained the purpose of the cash assistance to export industries as: 

"...non-traditional and industrial products, particularly those with potential for growth on the basis of a broad judgement as the need for assistance due to the lack of economies of scale inherent in nascent industries and factors like incidence of non-refundable taxes and levies all of which affect their competitiveness in international markets. Though the main responsibility for the task of further improving their competitive ability naturally rests with producing units, the Government had decided to provide the necessary assistance to build up efficient production and also in the meanwhile endeavour to compensate exports for the temporary
### Table 6.1
Cash Subsidies Received by Export Industries 1966-70

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering Goods</td>
<td>133.3</td>
<td>16.0</td>
<td>336.5</td>
<td>49.5</td>
<td>668.6</td>
</tr>
<tr>
<td>Chemical and allied products</td>
<td>42.0</td>
<td>4.6</td>
<td>147.3</td>
<td>16.3</td>
<td>215.6</td>
</tr>
<tr>
<td>Plastic goods</td>
<td>4.9</td>
<td>0.5</td>
<td>10.0</td>
<td>1.8</td>
<td>17.4</td>
</tr>
<tr>
<td>Sports goods</td>
<td>3.2</td>
<td>0.3</td>
<td>8.5</td>
<td>0.8</td>
<td>8.6</td>
</tr>
<tr>
<td>Processed goods</td>
<td>5.3</td>
<td>0.3</td>
<td>16.1</td>
<td>1.0</td>
<td>10.8</td>
</tr>
<tr>
<td>Woolen carpets, rugs, etc. 3/</td>
<td>29.5</td>
<td>3.0</td>
<td>14.0</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Cotton seed cakes 2/</td>
<td>-</td>
<td>-</td>
<td>93.0</td>
<td>22.1</td>
<td>32.5</td>
</tr>
<tr>
<td>Ferrous scrap 3/</td>
<td>58.3</td>
<td>5.8</td>
<td>125.3</td>
<td>12.0</td>
<td>84.3</td>
</tr>
<tr>
<td>Groundnut extractions 4/</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Iron and steel 5/</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>276.5</td>
<td>30.5</td>
<td>758.5</td>
<td>104.8</td>
<td>129.2</td>
</tr>
</tbody>
</table>

**Notes:**
1/ Cash assistance on woolen carpets, rugs, etc. was discontinued from 1 January 1967. Payments in the following years were for arrears.
2/ The cash assistance for cotton seed cakes was introduced on 4 June 1967, with retrospective effect from the devaluation so that there was no payment in 1966-67, but a larger sum was paid 1967-68. The rate of assistance was reduced in 1969.
3/ The rate of cash assistance on ferrous scrap was reduced from 10% to 5% after 9 September 1967.
4/ The cash assistance for export of groundnut extractions and iron and steel was introduced after devaluation.
5/ The scheme for cash assistance on beef products was introduced in 1970-71. However, the size of this subsidy was relatively small. The cash assistance paid was Rs. 12,000 on export of Rs. 84,000.

**Source:** Lok Sabha Secretariat, "Fourteenth Report of the Fifth Lok Sabha's Estimates Committee", op. cit., pp. 370 and 371.
the compensation was given to exporters from various state and local taxes incurred by them directly and indirectly. This was required because the drawback scheme, which is discussed later on, takes into account only import and excise duties. Secondly, the difference was covered between the marginal cost and the f.o.b. price in case of specified exportable items.

However, problems have been pointed out regarding this scheme. Assuming that the scheme functions partly to cover the difference between the marginal cost (precisely, the short-run marginal variable cost) and the f.o.b. export price, when exporting is to become a normal rather than a distress activity, an entrepreneur would be unwilling to expand his export capacity unless his cash realization from exports, including subsidy, covers not only his variable marginal cost but also his fixed cost and his export proceeds sufficient to give him an adequate return on his investment.

Moreover, even the above incentive may not be sufficient to induce exports because this requires not

handicaps that stem from transitional difficulties inherent in a developing economy and to alleviate the disadvantages arising from the domestic fiscal policies... See, Lok Sabha Secretariat, "Fourteenth Report of the Fifth Lok Sabha's Estimates Committee," op.cit., pp.228-29.

17. V. Joshi, "India's Export Incentive System," op.cit., p.63.
only that costs be covered but also that the profitability of exporting is at least equal to the profitability of sales on the home market. On the other hand, the basic principle of tailoring the subsidy to the difference between cost and export price is itself questionable, which would involve compensating for various taxes on inputs (unless they are looked after by duty drawbacks) and also for the high ex-factory costs of production of bought-out inputs in relation to world prices.

6.2.2.2 Fiscal Concessions

Two types of fiscal concessions in the form of export promotion incentives were in operation during the period. One of them relates to the payment of direct taxes, while the other relates to the payment of indirect taxes. In the former type of concession, the earnings from exports are either partially exempted from income tax, or are taxed at a concessional rate. The latter type of concession mostly takes the form of renunciation of taxes or tariffs paid on inputs used in the export output.

In the early 1960s, the Government of India initiated a variety of concessional tax scheme for exporters. The most significant tax incentive in the period was the
Finance Act of 1965, in which exporters of selected products were granted tax credit certificates as a specified percentage ranging from 2 per cent to 15 per cent of the f.o.b. value of exports, which covered 29 commodities constituting 53 per cent of the total export value. All these tax incentives were withdrawn with the announcement of the devaluation of rupee in 1966. However, two years later, the Finance Bill of 1968 revived the method of subsidising exports through income tax concessions.

The device of income tax rebates is subject to certain limitations. If the income tax relief is related to the value of exports, the incentive provided by it may not be effective when the exports account for a small proportion of the total production as well as when an exporter cannot normally predict the quantity of exports at the time of expecting an export order.

18. The first policy of this kind was a system introduced in the 1962 budget whereby the income derived from exports was taxed at 45 per cent rather than the usual rate for industries of 50 per cent. The next development was a new kind of tax rebates set out by Finance Act of 1963. Under this scheme, exporters of a large number of manufacturing industries were granted a rebate in income tax, calculated at the average rate of 2 per cent of the total export turnover. The evolution of income tax concessions given to exporters as incentives is discussed in detail in D. Nayyar, India's Exports and Export Policies in the 1960s, op.cit., pp.222-24. A list of industries eligible for this tax concession can be found in J. Bhagwati and P. Desai, India-Planning for Industrialisation (London: Oxford University Press), 1970, pp. 432 and 433.

Overviewing the indirect tax incentives given to the export industries in the 1960s, D. Nayyar divided them into three groups: 20 (1) drawback of tariffs paid on the imported materials and intermediaries; (2) refund of central excise duties paid on domestically produced inputs; and (3) exemption from sales tax on the output sold abroad. These schemes were introduced on a larger scale in the 1960s. Among the three types of indirect tax incentives, the last one has a more direct impact on exporters. In practice, the exemption from sales tax on the output sold abroad has been administered based on the all-Industry rates worked out by the Drawback Directorate. If an enterprise could prove that the actual duty paid exceeds the all-industry rate assessment by 25 per cent, it can choose to be considered under a brand rate which is on a firm-by-firm basis.

V. Joshi assesses the indirect tax incentives in operation during the period as follows: 21

(a) Duty drawback was available only on materials used up in the process of manufacture. It was not available on the purchase of machinery;


(b) The drawback at the all-industry rates was based on a safe minimum basis and in many cases was never compensated to the exporters fully for the cascading effects of taxes, which was evident in comparison with the duty drawback on imports and the value of replenishment licences issued. Brand rates were made use of only by firms that could afford the costs involved in conducting prolonged negotiations with the Drawback Directorate.

(c) The drawback rate granted on an input that was both imported and domestically produced was calculated by taking the weighted average of the import duty (including countervailing duty) and the excise duty based on the shares of imports and domestic production in total domestic availability. This means that if a firm satisfies its need for a particular input entirely from imports, it does not receive full compensation for duties paid.

6.2.2.3 Incentives Implicit in the Import Policy

Incentives implicitly in the import policy provides substantial encouragement to exports, since it enables exporters to purchase importable inputs at world prices as well as to sell their surplus foreign exchange in an open market at a premium. As the first policy of this kind, the
import entitlement scheme for exporters was introduced in 1957, but the scope was limited as their objective was mainly to ease supply bottlenecks of essential industrial materials. It was when the Third Plan emphasised the importance of exports that the scheme acquired importance as export incentive.  

Under this system, exporters are allowed to retain a certain proportion of their foreign exchange earnings in the form of import licenses. There is no doubt that this policy acquired the unstated objective of giving cash subsidy to exporters.

A few years after the abolition of the import entitlement scheme accompanying the devaluation of rupee in 1966, the government announced the introduction of the import replenishment scheme. In principle, this new import policy for registered exporters was much the same as the earlier entitlement scheme, whereby exporters were allowed to retain a specific percentage of the foreign exchange earnings in the form of import licenses. However, the stated objective of this system was to replenish exporters for the import content of their exports so that production base of exports would not suffer as a result of otherwise


tight import control system. Therefore, the import replenishment proportion was meant to be equal to the import content, whereas the entitlement had been doubled to the estimated import requirement.

The rates of replenishment ranged from as little as 2 per cent to as much as 75 per cent, most of which were determined separately item by item (see Table 5.2). The total issue of import replenishment licences more than doubled from Rs.428.7 million in 1967-68 to Rs.947.4 million in 1970-71, and in this period, the scheme extended to approximately one-third of India's total exports.

Another kind of the export incentive implicit in import policy which was introduced after the devaluation was the preferential treatment accorded to exporters in the normal allocation for foreign exchange. In 1968, the Government announced that firms which exported more than 10 per cent of their total production would be eligible for preferential treatment, both in the issue of capital-goods or actual-user import licence, equal to the previous year's

24. For the purpose and the objectives of the import entitlement scheme, see for example, Reserve Bank of India, Report on Currency and Finance 1966-67 (Bombay), 1967, p.154.


### Table 6.2

Import Replenishment Rates for Exporters in the Post-Devaluation Period (% the F.O.B. value of exports)

<table>
<thead>
<tr>
<th>Eligible export industries</th>
<th>Range of announced import replenishment rates (1)</th>
<th>Actual average rate of import replenishment (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering Goods</td>
<td>5 to 75</td>
<td>26.7</td>
</tr>
<tr>
<td>Chemical and allied products</td>
<td>5 to 60</td>
<td>24.0</td>
</tr>
<tr>
<td>Plastics</td>
<td>10 to 50</td>
<td>29.1</td>
</tr>
<tr>
<td>Leather &amp; leather goods</td>
<td>3 to 15</td>
<td>5.9</td>
</tr>
<tr>
<td>Sports goods</td>
<td>10 to 40</td>
<td>15.9</td>
</tr>
<tr>
<td>Fish and fish products</td>
<td>10</td>
<td>6.3</td>
</tr>
<tr>
<td>Processed foods</td>
<td>2 - 20</td>
<td>10.40</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>10 - 40</td>
<td>30.7</td>
</tr>
<tr>
<td>Cashew kernel</td>
<td>2</td>
<td>2.7</td>
</tr>
<tr>
<td>Tobacco unmanufactured</td>
<td>3</td>
<td>2.3</td>
</tr>
<tr>
<td>Woolen carpet</td>
<td>5 - 40</td>
<td>4.8</td>
</tr>
<tr>
<td>Woolen textiles</td>
<td>30 - 70</td>
<td>15.5</td>
</tr>
<tr>
<td>Coir products</td>
<td>5</td>
<td>5.1</td>
</tr>
<tr>
<td>Cotton textiles</td>
<td>6.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Readymade garments</td>
<td>9 - 52.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Natural silk garments</td>
<td>5 - 50</td>
<td>27.7</td>
</tr>
<tr>
<td>Gems &amp; Jewellery</td>
<td>25 - 70</td>
<td>67.5</td>
</tr>
<tr>
<td>Cinematographic films</td>
<td>25 - 50</td>
<td>35.8</td>
</tr>
</tbody>
</table>

Notes:

1. Based on the announcement made in 1970-71, approximate ranges are presented.
2. The value of import replenishment licenses actually issued to exporters in each industry is: expressed as % of f.o.b. value of exports of the industry. These figures are available for the years 1968-69, 1969-70, and 1970-71 and the calculation is based on these figures.

consumption of imported materials, and in permission to
import from the cheapest source rather than from tied
sources. In 1970, the policy went a step further and
the degree of preferential treatment was related to the
proportion of the output exported.27 Firms that exported
more than 10 per cent of its production continued to
receive preference, and those that exported more than 25
per cent of their production were eligible to purchase an
even larger proportion of their import requirement from
their cheapest source.

However, these replenishment policies have been
looked after inadequately because they were still subject
to the principle of indigenous clearance underlying the
Indian import policy, which meant that, in general, import
of an item was permitted only if it was not available
domestically. Also, the monetary assistance aspect of the
replenishment policy was limited by restrictions on transfer-
ability which, in the case of preferential treatment, was
once-for-all transferability. Nominations had to be
decided on before applications for the preferential treat-
ment were made, and the nominee could not re-transfer them.
Nomination could only be in favour of manufacturers in the
same product group or to producers of components used in

27. See, Ministry of Foreign Trade, Government of India,
Import Trade Control Policy 1970-71 (Vol.II)
(New Delhi), p.6.
those products. Furthermore, the shopping list available to nominees was even more restricted than that available to direct receivers. 28

6.2.2.4 Subsidisation Related Explicitly to Inputs

Export incentives were given to the export industries during the period also in the form of subsidisation related explicitly to inputs. Such measures of export promotion initially aim at lowering the costs of specific inputs, thus eventually the prices of the products themselves, which include supply of indigenous materials at world prices, railway freight concessions and export credit and insurance facilities.

The incentive for export promotion by means of supply of indigenous materials at world prices given to exporters during the study period was the allotment by 'green form' of the domestic raw materials to exporters in engineering, chemicals, plastics, processed food and garment industries. The allotment was made based on the

28. Not surprisingly, suggestions have often been made to increase the subsidy element in the scheme by reducing the restrictions on transferability. The main problem with making these license transferable is that there may be a concentration of demand on particular imports. The comments on India's export incentives implicit in import policy in this paragraph are based those by V. Joshi, "India's Export Incentive System," op.cit., p. 69.
actual raw material requirements of the export orders received. 29

The concessions of railway freight were given to exporters in the 1960s. Exporters of non-traditional commodities were benefited most from this scheme because of the bulky nature of the products. 30

Export credit and insurance facilities as export incentives 31 are important in the context of India's export promotion since a bulk of its exports are constituted by primary products and traditional manufactures. 32 Export credit was made available to the exporters first by the refinance scheme of medium-term export credit started in 1963. 33 The operation of the scheme was commenced by the

---


33. At the same time, export credit was made available to exporters indirectly by the government through commercial banks. In 1963, the Reserve Bank of India announced two provisions for export promotion. One was to enable commercial banks to borrow from the Reserve Bank issued equal to the export credits granted at the bank rate, irrespective of the net liquidity ratio. On the other hand, the refinance was provided at an
Industrial Development Bank of India. Initially, refinance was available for export credit up to a period of five years. In 1967, the terms of credit were liberalised and the period was extended up to 7 years in 'deserving cases' and 10 years in specially deserving cases.  

On the other hand, since the establishment of the Export Credit Guarantee Corporation of India in 1964, the underwriting of the risks arisen in exporting was made available. The initial service the Corporation provided was the post-shipment export credit guarantee to 66.7 per cent of the total post-shipment export value. Later, the terms of guarantee were liberalised to 80 per cent. Also, in so far as advances to small merchants were concerned, the percentage of guarantee coverage under its packing credit guarantee was raised to 90 per cent.  

interest rate of 4.5 per annum on the understanding that banks did not charge exporters a rate higher than 6 per cent. In 1965, the Reserve Bank introduced an additional incentive whereby it granted commercial banks a subsidy equal to 25 per cent of interest income accruing from export credits. See for details, National Council of Applied Economic Research, Export Strategy for India, op.cit., p. 53.  

34. See for details regarding the terms of export credit provided by the Industrial Development Bank of India, B. Hayyarr, India's Exports and Export Policies in the 1960s, op.cit., pp. 241 and 242.  

35. See for details regarding the terms of export credit guarantee provided by the Export Credit and Guarantee Corporation of India, ibid., pp. 242 and 243.
The National Council of Applied Economic Research comments the scheme of export credit and insurance during the study period as follows:

(1) The rate of interest on all export credit was pegged at a maximum rate of interest of 6 per cent annually as against 9.5 per cent for all general credit. However, the rate was much higher than those of other important exporting countries like Japan, France and the U.S.A.

(2) The coverage of guarantee was smaller than the guarantee of up to 90 to 95 per cent provided by the leading exporters like the U.K. Also, the guarantee scheme did not cover the risk emanating from changes in exchange parity to which exporters were more likely to be exposed.

(3) It was observed in the performance of the Export Credit Guarantee Corporation of India that the paid-up capital and resources were too slender in relation to the risk values covered by the guarantee underwritten. Therefore, it had no sound ground to operate with confidence and to face large claims.

6.2.2.5 Market Assistance From the Government

Market assistance and other related services were also made available to exporters during the study period. Export incentives on marketing by means of providing services included collection and dissemination of market information.

export publicity and exhibitions abroad, quality control and inspection, training towards the development of export skills and assistance in designing, packing etc.\(^{37}\)

5.2.3 India's Export Promotion Policy for the Cotton Textile Industry

Since the beginning of Indian planning, policy makers have been quite aware of the importance of the export sector in the textile industry. In the early 1960s, the industry started to receive the benefits from the import entitlement schemes. In the scheme, import licenses allotted to exporters fetched them high premium in the market thereby constituting an effective subsidy. The extent of the subsidisation was limited by the restrictions on sale of the import entitlements. The cotton textile exporters had to surrender (i) two-thirds of their coal tar dye entitlements to dye manufacturers; (ii) four-fifths of their machinery entitlements to the manufacturers of textile machinery at fixed premium; and (iii) raw cotton entitlements to the Textile Commissioner at a fixed margin.\(^{38}\)

\(^{37}\) Various institutions were set up by the Ministry of Commerce to provide marketing services and advice to exporters such as Trade Development Authority, Federation of Indian Export Organisations, Indian Institute of Foreign Trade, Export Promotion Councils, Commodity Boards, and Trade Fair Authority. See for the detailed discussion on market assistance as an export incentive, National Council of Applied Economic Research, Export Strategy for India, op.cit., pp. 94-106.

\(^{38}\) For details of the scheme and its operation regarding the cotton textile industry, see J. Bhagwati and P. Desai, India-Planning for Industrialisation, op.cit., pp. 417-422.
As a result, the premium on import licenses varied considerably between the products made from different inputs. According to the study by J. Bhagwati and H. Esai, the effective subsidy for cotton textile implicit in the import entitlement scheme in May 1965 varied between 28.3 per cent and 65.7 per cent of the f.o.b. value of exports, depending on the category of the product and the direction to which the product was exported. The import entitlement scheme was withdrawn at the time of devaluation of the rupee in 1966. According to D. Nayyar, the net devaluation for cotton textile products was 14.2 per cent as against the gross devaluation rate of 37.2 per cent, taking into consideration the effect of the countervailing measures for devaluation including the abolition of the import entitlement scheme.

After the devaluation, some of the export promotion incentives withdrawn at the time of the devaluation were gradually revived. The cotton textile industry started to receive the facilities under the import replenishment scheme,

39. Ibid., p.419. The effective subsidy was relatively low for the coarse and the medium varieties of cloth and tended to be high for the fine and the superfine varieties. Within the same category the subsidy increased according to the degree of processing. For example, bleached cloth was given higher subsidy than grey.

40. D. Nayyar, India's Export and Export Policies in the 1960s, op.cit., pp.75 and 76.
but the import licenses issued to exporters amounted only to around 5 per cent of the f.o.b. value of exports. From 1963 on, the industry was given cash assistance at a flat rate of 5 per cent on the f.o.b. value of all exports of cotton textiles. The subsidy was distributed through the Indian Cotton Mills Federation and financed by reimbursement of non-refundable taxes.\(^4\)

The various suggestions made for improvement of the export promotion incentives for the cotton textile industry can be summed up as follows:\(^4\)

(1) It was recommended that the Cotton Stock Control Order be amended so as to permit mills to stock the quantity of cotton required to fulfill the export target, in addition to the normal permissible limits of the stock as concession to the cotton textile exporters in purchasing cotton;

(2) Labour cost constituted about 20 to 25 per cent of the cost of the furnished products in the cotton textile industry. The labour cost in the industry fluctuated when the dearness allowance, an important element of the labour

\(^4\) See for details of the incentives provided for the cotton textile industry in the post-devaluation period, see, ibid., pp. 75 and 76.

cost, used to be evaluated on a monthly basis. The uncertainty in the wages payable from month to month was a disadvantage for long-term export contracts. It was recommended to revise dearness allowance at least on a half-year basis.

(3) Frequent changes in electricity charges, railway freights, excise duties and sales taxes, which were also the important elements in the cost structure, should be avoided for stabilisation of the product price.

(4) One of the major problems in the export of cotton textiles and yarns was the very high cost of production arising out of obsolete technology generally employed in the industry. Most of the mills did not have the requisite funds for rehabilitation, since their reserves had been depleted in the past in undertaking the minimum rehabilitation programmes as well as were used to meet the ever-increasing needs of working capital due to increase in the production cost. Commercial banks were reluctant to advance money to the industry, considering it to be a banking risk. Moreover, there were no specialised financial agencies for extending

---

43. Dearness allowance in the cotton textile industry was determined according to the cost of living index in the previous month. The cost of the finished product changed by about 2 per cent to 2.5 per cent every year only as a result of changes in dearness allowance. See, *ibid.*, p. 147.
assistance to the textile industry. It was suggested for rehabilitation and renovation of the industry: (i) to set up special agencies to extend financial assistance to the industry on reasonable terms; and (ii) that a reasonable percentage of excise duties collected from the industry is to be set aside by the government as a means of granting soft long-term loans;

(3) The taxation on income of an exporting firm or mill is preferable to be such that the tax on the percentage of profit equals to that of the export turnover of the total turnover to be exempted;

(6) Reasonable margin of profit in exports is very important and this can be achieved effectively through suitable export assistance schemes. The scheme of issuance of bonus vouchers of a stipulated percentage of f.o.b. value of exports is supposed to be ideal as export incentive measure. The bonus vouchers should be transferable and encashable. In view of the gap between the cost of production and the international price, the average extent of bonus vouchers for the cotton textile industry is preferable to be fixed at around 15 per cent of the f.o.b. value, though the percentage of value should be decided separately for the products according to the quality and the direction of export.

Issuance of the vouchers should be made immediately on presentation of the shipping bill as soon as the shipment
is ever, which makes the vouchers sufficiently attractive to exporters. The immediate issuance of the bonus vouchers, together with the immediate permission to the imports of essential materials as well as to the transfer to other parties on payment of premia, would ensure exporters to recover the price difference with international prices and to avoid the blockin-up of their funds for exports for a longer period.

(7) India's cotton textile industry was facing constraint in the supply of materials, especially raw cotton, which affected competitiveness of India's products. India's potentiality in the production of raw cotton should be properly exploited by means of utilisation of better inputs and technology.

(8) The drawbacks of the customs and excise schemes were not effective as export incentive in practice, owing to their cumbersome procedures. It is desirable that the imposition of customs and excise duties is to be withdrawn altogether or that the rates are to be reduced instead of providing drawbacks.

(9) The Cotton Textile Export Promotion Council was set up to supervise and organise the export promotion efforts of the cotton textile manufacturers and exporters. More rigorous efforts are required by the organisation as well as exporters with respect to quality control and marketing of the exports.
6.2.4 Export Promotion Incentives for India's Handtools Industry

In the pre-devaluation period, the various export incentives such as import entitlement scheme, customs and excise duty drawbacks, income tax concessions, railway freight concessions and preferential supply of raw materials were given to the handtools industry.\(^4^4\) For example, 75 per cent of the f.o.b. value of handtools exports were benefited from the import entitlement scheme from 1964 on until the devaluation.\(^4^5\)

Despite the interruption accompanying the devaluation, most of the incentives given to the industry prior to the devaluation were revived within a few years. Instead of the import replenishment scheme, the handtools industry was given the import entitlement licenses in which 70 per cent of total f.o.b. value of handtools exports was covered.\(^4^6\) Secondly, the industry was given cash subsidies, in which 15 per cent of the f.o.b. value of exports was covered in


\(^{4^6}\) Ibid., pp. 1715 and 1716.
1966-67 and 1969-70. 47 Thirdly, with effect from 1967, the industry was given reimbursement of the difference between the domestic and the international prices of steel used in exports. 48 Fourthly, a compulsory export obligation scheme was introduced in 1963. The handtools industry which manufactures small tools was advised to export at least 5 percent of its total production. 49

For improvement of the export incentives for India's handtools industry, the Engineering Export Promotion Council made the following suggestions: 50

1. The export promotion scheme by means of cash assistance did not have adequate flexibility as its operation was not connected with the export performance. On the other hand, the schemes of import entitlement and bonus voucher were appropriate as export incentive. It is desirable, however, to allow wider transferability within broad groups of the engineering industry in order to avoid delay in issuing licences owing to the lack of details and classifications about nominees, etc;

47. Ibid., pp. 1715 and 1716.


2. **Tax relief, which was one of the effective export incentives, should be based on export turnover, not on profit on exports.** It was also recommended that the scheme be in the form of allowing exporters to retain certain percentage of duties or settlement of claims, fulfillment of warranty obligations, etc.

3. **Concessional freight for shipment of exports is important for the engineering industry.** Concession in railway freight on all engineering goods should be given for a period of at least 5 years, within which the industry is supposed to establish export markets overseas and be in a position to bear full freight.

4. **Besides the above, it is also important to make efforts in improving packaging, making market surveys and holding exhibitions and trade fairs.**

5.3 **Japan’s Trade Policy 1951-72**

6.3.1 **Overview of Japan’s Trade Policy**

Japan’s trade policies since the Second World War have been virtually concerned with its industrialisation. One of the broad objectives of Japan’s trade policy adopted during the study period was to protect the home market from imports of infant industries in which costs were initially high. On the other hand, the policy of technology importation gave infant industries an incentive to cut costs through learning by working on economies of larger scale and to undertake further technological innovations.
The direction for Japan's industrialisation has been spelt out in its post-war export policy. Industries with high rate of growth and high productivity have been provided greater opportunities for investment along with other factors of production. There were basically three factors which has significantly influenced the formation of Japan's post-war trade policy. Firstly, the trend in the economic structure has been clearly reflected in the trade policy in Japan. Secondly, the changes in the social structure also contributed to the formation of Japan's trade policy. Finally, the international environment was also important in this context.

S. Okita characterises the strategy for economic growth and industrialisation in the post-war Japan as firstly, the industries which were expected to achieve high growth in future were selected for special attention from the government; and secondly, assistance was directly given to these industries by the government, and also measures to support

51. The assistance were given to the key industries by the government either explicitly or implicitly. Therefore, it is not easy to apprehend all the measures given to the industries as assistance and also to measure the extent of the benefits which the industries derived from them. However, it is worth noting the statement made by S. Okita, who took an active part in the economic decision-making of the Japanese government during the study period, that such assistance ranged from tax concessions to underwriting their dividends obligations. See, S. Okita, *A Collection of Essays* (Japan Economic Research Paper No. 28) (Tokyo: Japan Economic Research Centre), 1975, p. 29.
them indirectly were taken, such as the policy to avoid
ruinous competition from overseas at the infancy stage of
growth of the industries so that they were able to improve
competitiveness at the cost of such protections. Once the
progress in competitiveness of the industries were observed,
the measures which provided protection in the previous
stage were altogether withdrawn and the industries were
exposed to the competition with the foreign industries. These
industries by then were quite capable of securing the
domestic as well as the world markets.

Japan's trade policy during the study period

52 L.B. Krause and S. Sekiguchi list up the policies which
had a direct impact on Japan's foreign trade. The list
of the trade policies during the study period below
excludes those that had indirect effects on trade such
as policies on foreign investment and other economic
and commercial policies in general which affect trade
in a way or the others
(1) Creation of the Japan Export Bank, 1951, to supply
long term loans for exports (Reorganised in 1952 as the
Japan Export and Import Bank); (2) Creation of the Japan
External Trade Organization (JETRO), 1951, to supply
marketing information for Japanese exporters; (3) Revi-
sion of tariff schedules, 1951; (4) Creation of the
'Link Trade System,' 1952, whereby import licenses were
allocated based on export performance; (5) Preferential
Finance for the Period preceding Exportation', 1953
(upto 1971), to facilitate exports by easing financial
terms during the production process; (6) 'Tax Credit
for Export Income', 1953 (upto 1964), for exporters and
export sales; (7) 'Extra Depreciation Allowance for
fixed Assets of Overseas Branches', 1953 (upto 1958),
as tax deduction for foreign sales facilities; (8) Esta-
blishment of the Export Conference, 1954 (upto 1969),
to publish export targets; (9) Revision of the 'Law of
Tariff Rates and Custom Duty,' 1954, in preparation for
joining GATT to shift to ad valorem tariffs and reduce
tariff rates; (10) Creation of Japan Association for
Plant Exportation, 1955, to promote exports of machinery
and plants; (11) Japan started voluntary restraints on
exports of cotton textiles to the U.S.A., 1957; (12) 'Extra
facilitated the operation of the strategy for industrialisation. For example, controls were imposed on the imports of

_Tax Credit for Exports,' 1957 (upto 1961), an extension of the item 6; (13) 'The Credit for Technology Export

ation', 1959 (revised between 1964 and 1969); (14)

-Fundamental Policy to Liberalize Foreign Trade and

Exchanges', 1960, to liberalise 257 four-digit BTN items

in imports; (15) The Export-Import Bank to extend finance

for deferred payments on softer conditions, 1961; (16)

The Bank of Japan to reduce the rediscount rate of export

bills, 1961; (17) The reporting system of quota restrictions

on imports to be switched into a negative list of

items from a positive list of items, 1962; (18) The

ordinance by Ministry of International Trade and Industry

(MITI), 1963, to permit firms to import technology without

approval of the ministry; (19) Declaration of Article 11

Status, 1963 Articles 8 Status, 1964, to end direct tax

credits on exports and foreign exchange budget allocation,

which was partially replaced by 'Special Depreciation

Allowance for Exporting Companies,' 1964 (upto

1972); (20) 'Extra Depreciation Allowance for Exporting

Companies', 1964 (upto 1974); (21) 'Special Reserve for

the Exploitation of Foreign Markets', 1964 (renewed in

1969); (22) 'Special Treatment of Export Promotion

Expenses', 1964, to give foreign buyers tax deduction;

(23) 'Special Extra Depreciation for the Exporting

Countries Authorized by the Minister of MITI', 1964 (upto

1969), giving tax credits to 'export-contributing'

companies; (24) Imports of completed cars liberalised,

1965; (25) JETRO began to finance for imports from deve-

loping countries, 1966; (26) Imports of technology with

or without foreign management liberalised, 1968; (27)

Japan began to limit exports of steel to the U.S.A.;

1967; (28) Export target by the Export Conference dis-

continued, 1969; (29) Preferential rate of interest

for export bills, extra depreciation allowance (items

19, 20 and 23) discontinued, 1969. Also, import deposit

required for import licenses stopped discriminating

against consumer goods and fixed to 1 per cent, which

came to operate in the next year; (30) 'Sixth Items of

Urgent Policy Measures to Avoid yen Revatuation' adopted,

1971, which included reduction of tariff and non-tariff

barriers; (31) 'General Scheme of Preferential Tariffs'

implemented, 1971; (32) 'Accelerated Depreciation for

the Companies in the Industries Related to GSP to

Adjust', 1971, to permit accelerated depreciation for

companies competing with developing countries; (33)

Japan agreed to restrain textile export except cotton
manufactures and foreign direct investment. A study made by I. Yamazawa indicates that the effective tariff rates on competitive manufacturers were extremely high because of the sharp escalation of Japan's tariff schedules from the raw material through higher processing stages, especially before the Kennedy Round Reductions. Another important aspect of the trade policy in Japan during the period was the
to the U.S.A., 1971; (34) Reduction of import quota constraints from 20 to 60 items completed, 1971; (35) 'International Economic Countermeasures as Emergency Programmes,' 1972, including promotion of orderly exports and promotion of imports through enlarged quotas; (36) Creation of the Orderly Marketing Maintenance Committee in MITI, 1972. Voluntary Export Control were imposed on twenty groups of products, which were restricted in the next year. See, L. D. Krause and S. Sekiguchi, "Japan and the World Economy," op.cit., pp.451-58.

53. The control of foreign investment was laid down in 1950 through the law concerning foreign investment, in which foreign investment was allowed only when it helped to achieve the self-sufficiency of the Japanese economy. Foreign firms were permitted at most only 49 per cent ownership of Japanese enterprises. Over time a series of major five rounds of liberalisation was initiated, and by 1973 foreigners could obtain 100 per cent ownership, except certain industries.

54. For example, according to his estimation, from raw cotton to cotton clothing, the effective rate of tariff increased rapidly, and more rapidly than the nominal rate as reaching higher processing stages. The effective rate against the nominal rate of tariff on raw cotton, cotton yarn, cotton textiles and cotton clothing in 1967 before Kennedy Round Reductions were: none; 9.9 per cent against 7.0 per cent; 36.2 per cent against 16.0 per cent; and 48.8 per cent against 27.8 per cent, respectively. A similar trend could be found with respect to many other items. The effective rate against the nominal rate of tariff on iron ore and scrap, pig iron, steel ingot and rolled steel in the same year were: none; 24.4 per cent against 10.0 per cent; 47.0 per cent against 12.5 per cent; and 35.1 per cent against 15.1 per cent, respectively. See ibid., pp.427-28.
encouragement of the imports of technology despite such controls on foreign exchange and foreign direct investment.\textsuperscript{55} The payments made by Japanese companies to foreign companies for patent licenses, know-how and associated expenses, which provides an aggregate measure to the flow of technology, grew at an average annual rate of 31.5 per cent from 1951 to 1955 and 34.0 per cent from 1955 to 1961. The payments grew slower at 11.2 per cent from 1961 and 15.4 per cent from 1964 to 1967, which again went up to 21.9 per cent from 1969 to 1970.\textsuperscript{56}

As Japanese industries gained competitiveness in pursuit of the protectionist measures, a shift in the aim of the trade policy was observed, i.e., a shift from protectionism to liberalisation. Beginning with the revision of the law of Tariff Rates and Customs Duty, 1954, in preparation for participating in the General Agreement on Tariffs and Trade (GATT), the controls on imports were gradually reduced in the direction toward the decisions taken by international trade and financial institutions like the General Agreement on Trade and Tariffs (GATT), International Monetary Fund (IMF) and United Nations Conference on Trade and Development (UNCTAD). By the end of the study period, tariff


reductions agreed in the Kennedy Round were completed and the general scheme of preferential tariffs was initiated, while other measures controlling imports like the import deposit system ceased to operate. At the same time, export incentives such as tax credits, preferential rate of interest on export bills, extra depreciation for exporting firms were withdrawn. 57

The changes in the social structure were also important in the formation of Japan's post-war trade policy. Partly owing to the increase in time for leisure and disposal income, the life style of the people changed over time.

57. Besides such liberalisation measures, Japan has implemented voluntary restraints on exports several times, especially to the U.S. markets. Discussing more in detail about the influence of the economic structure on Japan's trade policy in the post-war period, it is also possible to identify the distinctive relationship between the formation of the trade policy and the trend of the industrial structure. As the protection given to the industries was scaled down in the trade policy, that given to the light industries was first to be withdrawn. It can be said that such trend was the reflection of transformation of the industrial structure which the Japanese economy were undergoing. Giving an example, for the U.S. market, where a conflicting situation frequently occurred between Japanese exports and the U.S. domestic products, cotton textiles were the first item placed under the voluntary export restraint. By 1969, even steel products became the object for the voluntary export restriction (see the chronology of Japan's trade policy presented in the footnote 52 of this chapter, pp. 296-98.)
For example, the consumption pattern of the people underwent drastic upgrading. It is predicted that the total effect of the social change may be a gradual slow-down in the state of economic growth and export expansion to the level which prevails among other industrial countries.

The international economic environment also had a critical impact on Japan's trade policy. Trade policy of a country would never be effective without the consent and cooperation of the other countries with which it has economic relations. The general expansion of world trade under the IMF and the GATT systems during the study period led to the trade liberalisation by Japan. Liberalisation of imports was implemented not only on account of the situation in the domestic economy, but also because of its responsibility for advocating free trade as member of the world economy.

One of the important developments during the period in the implementation of trade liberalisation in Japan was the specific liberalisation of imports from the developing countries by introducing the generalized scheme of preferential tariffs. The development was a response to the growing demand of developing countries to promote manufactured exports and to change the traditional pattern of world trade in which they were used to play a part as supplier of raw materials.
6.3.2 Perspectives of Japan's Trade Policy

There are two versions of Japan's future trade policies which have been much discussed. One is that led by the Industrial Structure Council (ISC), a high-level decision-making body in the Ministry of International Trade and Industry of the Japanese Government, while the other is that elaborated by the Japan Chamber of Commerce and Industry (JCCI), the largest organisation of private firms in Japan. The main practical difference between their versions in short is that while the ISC is in favour of moving intermediate goods like iron and steel overseas, the JCCI thinks that since they are still the mainstay of domestic industries and exports, they should not be easily moved abroad.

To support the argument, the ISC stresses on the shortage of industrial sites and the need to conserve resources and energy to avoid pollution. The JCCI, on the other hand, agrees that the prevention of pollution is imperative whether at home or abroad, but claims that it is still more profitable to use the remaining sites within Japan even

paying the costs of anti-pollution measures than to shift the industries to other countries. The JCCI considers that the most practical way to save energy and resources is not relocating intermediate goods industries overseas, but utilizing resources and energy more efficiently.

There lies a distinction in their versions of the future of the Japanese economy. The ISC considers the Japanese economy to be already mature enough to initiate the transformation toward highly processed, technology-intensive machinery industry. On the other hand, the JCCI assess the economy not to be ready for such transformation where the intermediate goods industries including the light industrial sector and the heavy and chemical industries besides machinery and transport equipment sector is still the mainstay of the economy and expresses the fear that the machinery industry alone might not provide adequate employment, income and exports.

K. Kojima, in his study of the two types of perspective of the Japanese economy, finds that the ISC's view on the Japanese economy makes a dichotomy between the heavy and chemical industry producing intermediate goods and the machinery industry, while the JCCI's view regards

59. Ibid., p. 27.
60. Ibid., pp. 27 and 28.
the latter as a part of the former. The dichotomy perceived by the ISC on the two sectors enables to construct a model of the Japanese economy in future based on the machinery manufacturing, while according to the JCCI's view, it is regarded that the transformation of the economy based on the machinery industry is not feasible as it means the transformation to a single sector of the industry.

Kojima, instead of thinking of the all-or-nothing transplantation of the machinery industry abroad, suggests the detailed horizontal (i.e. intra-industry) specialisation in the world economy according to a finer commodity classification. The detailed horizontal specialisation is commonly observed in the field of the textile industry in Japan. A considerable portion of the industry has been relocated in the developing countries like South Korea and Taiwan with Japanese investment and technology and Japan's imports of textiles from these countries have rapidly increased.

Kojima contends that the Japanese economy is ready to initiate the detailed horizontal specialisation in the heavy and chemical sector. He gives an example of the detailed horizontal specialisation of the machinery industry by exporting parts and importing assembled products.

61. Ibid., pp. 28-30.
Kojima presents the following proposals for Japan's future trade policy:

1. It is important for Japan to make more efforts in resource and energy conservation as well as in raising the self-sufficiency ratio in foodstuffs to cut down the import dependency on natural resources.

2. The movement toward the structural transformation in the industry from heavy and chemical-based to knowledge-intensive sector-based industry, taking into account the factors like limited availability of resources, industrial sites and pollution, should not be taken too seriously in the short run.

3. The switch from a high rate of growth in trade and private equipment investment to a lower rate of growth oriented towards welfare is useful in reducing dependency on imports and controlling the growth of exports.

6.3.3 Japan's Trade Policy and Its Implications to India's Exports to Japan

Japan's efforts on the trade liberalisations until the Kennedy Round of Tariff Negotiations concentrated mainly on the relaxation of quota restrictions and the reduction of

62. Ibid., pp. 30 and 31.
extremely high rates of tariff, which did not have a significant impact compared with that of its liberalisation efforts in the latter period. It was only after the positive political decision was taken to initiate the plans for the trade liberalisation, drafted according to the agreements made in the Kennedy Round of Tariff Negotiations, that Japan launched into the liberalisation on a large scale.

However, the trade liberalisation measures taken on those occasions were universal in effect in the sense that they applied to any country in the world. Meanwhile, the Generalised Scheme of Preferences (GSP) was suggested to be adopted by industrial countries in the UN Conference on Trade and Development (UNCTAD) in response to the demand of the developing countries that developed countries should provide tariff concessions and other incentives to the exports from the developing to the developed in preference to the exports from the developed. Japan introduced the GSP scheme in August 1971 along with the other industrial countries. 63

The introduction of the GSP scheme brought a more distinctive impact on India's exports to Japan than any other trade policy set out during the period, because of its specific objective and function favouring exports from

63. The countries such as Austria, Bulgaria, Czechoslovakia, Denmark, FRG, Finland, Hungary, Ireland, New Zealand, Norway, Sweden, Switzerland and the U.K. implemented the GSP scheme between July 1, 1971 and April 1, 1972. The scheme introduced by the U.S.S.R. came to the effect in 1965.
developing countries against those from other developed countries. It is possible to take up the policy issues of Japan with respect to its trade with India during the study period by examining Japan's GSP scheme offered to India, even though no other integrated policy specifically meant for this regard was implemented. Assuming it, the analysis in this section concentrates on the operations of Japan's GSP scheme and its effects on India's exports from 1971 to 1972, which is the only period in the study period when India benefited from it.

The GSP scheme has the following salient features in its operations:

(1) The tariff concessions were given by the scheme to agricultural products (Brussels Tariff Nomenclature (BTN) Chapters 1 to 24) as well as manufactured products (BTN Chapters 35 to 99). The concessions were given in the form of either further reductions of the tariff rates of the post Kennedy Round or complete elimination of them;

(2) The list of beneficiary countries which are entitled to enjoy the preferential tariff treatment under the GSP is announced by the country which offers it.  

(3) To be eligible for the GSP concessions, the exporter has to produce certificates of origin to be awarded by recognised agencies in the developing countries. These certificates are insisted to make sure that exports are really manufactured substantially in the developing country itself.

(4) For some items, there is a system of ceiling, according to which Most Favoured Nations (MFN) rate of the post-Kennedy Round tariff rate is restored and concessions are withdrawn as soon as the imports of the GSP-awarding country reach the level of ceiling.

65. Pancharakhi analyses the gists of beneficiaries for various GSP schemes and finds that the following conditions seemed to be taken as criteria for choosing them: (1) actual and potential export capability and the number of competitors it has to compete in the particular market; (2) the strength of the traditional trade ties; (3) the institutional linkage traditionally established between the preference-giving country on one hand and the different competing countries on the other, such as existence of foreign investments, multi-national corporations with their parent organisations, in the preference-giving countries, and shipping links; (4) geographical continuity and convenience of transport; (5) political or other arrangements such as Commonwealth membership or EC association agreements with certain developing countries, etc.; and (6) measures taken by the beneficiaries themselves in order to derive maximum profits from the system. See, ibid., pp. 197-198.
Besides such general characteristics of the GSP scheme, Japan's GSP scheme offered to India in 1971 and 1972 had following specific features: 66

(1) The value of exports from India to Japan of products which would be covered by the GSP scheme in the three pre-GSP periods, April–July 1970, August 1970–March 1971 and April–July 1971, amounted 22 per cent, 17 per cent and 11 per cent of India's total exports to Japan, respectively, and to 70 per cent, 64 per cent and 37 per cent of India's total exports to Japan excluding those of the zero tariff group, respectively. In the period after the implementation of the GSP, from August 1971 to March 1972 and from April to July 1972, the product coverage of the GSP was 12 per cent and 16 per cent of India's total exports, respectively, and 26 per cent, 37 per cent of India's exports to Japan excluding those of the zero tariff group;

(2) The heights of the MFN tariff rates of the Post-Kennedy Round and the GSP rates and preference margins of two-digit Revised Indian Trade Classification (RITC) categories are presented in Table 6.3;

(3) Preferential imports of all non-agricultural products (HSN Chapters 25 to 99) were subject to ceiling and minimum amount limitations. The number of cases when all

66. Ibid., pp. 207 and 208.
<table>
<thead>
<tr>
<th>2-digit RITC(2)</th>
<th>Group of Commodities</th>
<th>No. of items</th>
<th>MFN rates of post-Kennedy Round</th>
<th>GSP rates</th>
<th>Preference margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Meat and meat preparations</td>
<td>4</td>
<td>8.75</td>
<td>9.00</td>
<td>0.25</td>
</tr>
<tr>
<td>02</td>
<td>Dairy products and eggs</td>
<td>1</td>
<td>45.00</td>
<td>45.00</td>
<td>0.00</td>
</tr>
<tr>
<td>03</td>
<td>Fish and fish preparations</td>
<td>9</td>
<td>10.82</td>
<td>9.28</td>
<td>0.54</td>
</tr>
<tr>
<td>04</td>
<td>Cereals &amp; cereal preparations</td>
<td>3</td>
<td>28.33</td>
<td>22.50</td>
<td>5.83</td>
</tr>
<tr>
<td>05</td>
<td>Fruits and vegetables</td>
<td>34</td>
<td>19.32</td>
<td>15.90</td>
<td>3.32</td>
</tr>
<tr>
<td>06</td>
<td>Sugar and sugar preparations and honey</td>
<td>3</td>
<td>31.66</td>
<td>31.66</td>
<td>0.00</td>
</tr>
<tr>
<td>07</td>
<td>Coffee, tea, cocoa and spices</td>
<td>38</td>
<td>10.26</td>
<td>0.94</td>
<td>9.32</td>
</tr>
<tr>
<td>09</td>
<td>Miscellaneous food preparations</td>
<td>4</td>
<td>24.26</td>
<td>20.00</td>
<td>4.26</td>
</tr>
<tr>
<td>11</td>
<td>Beverages</td>
<td>2</td>
<td>20.00</td>
<td>0.00</td>
<td>20.00</td>
</tr>
<tr>
<td>12</td>
<td>Tobacco and tobacco manufactures</td>
<td>7</td>
<td>332.85</td>
<td>332.85</td>
<td>0.00</td>
</tr>
<tr>
<td>21</td>
<td>Hides skins for skins undressed</td>
<td>22</td>
<td>1.36</td>
<td>0.00</td>
<td>1.36</td>
</tr>
<tr>
<td>26</td>
<td>Textile fabrics and their waste</td>
<td>34</td>
<td>1.07</td>
<td>0.44</td>
<td>0.63</td>
</tr>
<tr>
<td>27</td>
<td>Crude fertilisers and crude minerals</td>
<td>48</td>
<td>0.28</td>
<td>0.00</td>
<td>0.28</td>
</tr>
<tr>
<td>28</td>
<td>Metalliferous ores and metal scrap</td>
<td>25</td>
<td>0.45</td>
<td>0.00</td>
<td>0.45</td>
</tr>
<tr>
<td>29</td>
<td>Crude, animal and vegetable materials, n.e.s.</td>
<td>75</td>
<td>2.29</td>
<td>1.20</td>
<td>1.09</td>
</tr>
<tr>
<td>32</td>
<td>Coal, coke and briquettes</td>
<td>3</td>
<td>1.66</td>
<td>0.00</td>
<td>1.66</td>
</tr>
</tbody>
</table>

Note: (1) The height of tariff is measured by simple (unweighted) averages of tariff rates within a commodity group.

(2) Revised Indian Trade Classification.
<table>
<thead>
<tr>
<th>2-digit RITC</th>
<th>Group of commodities</th>
<th>No. of items</th>
<th>AIT rates of post-Kennedy Round</th>
<th>USF rates</th>
<th>Preference margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>33.</td>
<td>Petroleum &amp; petroleum products</td>
<td>1</td>
<td>7.00</td>
<td>0.00</td>
<td>7.00</td>
</tr>
<tr>
<td>42.</td>
<td>Fixed vegetable oils &amp; fats</td>
<td>3</td>
<td>8.33</td>
<td>8.33</td>
<td>0.00</td>
</tr>
<tr>
<td>43.</td>
<td>Animal &amp; vegetable oils and fats processed and waxed</td>
<td>1</td>
<td>7.50</td>
<td>6.00</td>
<td>1.50</td>
</tr>
<tr>
<td>51.</td>
<td>Chemical elements and compounds</td>
<td>19</td>
<td>9.34</td>
<td>0.00</td>
<td>9.34</td>
</tr>
<tr>
<td>52.</td>
<td>Mineral tars and crude chemicals from coal, petroleum, etc.</td>
<td>1</td>
<td>2.50</td>
<td>0.00</td>
<td>2.50</td>
</tr>
<tr>
<td>53.</td>
<td>Dying, tanning and colouring materials</td>
<td>24</td>
<td>10.38</td>
<td>0.00</td>
<td>10.38</td>
</tr>
<tr>
<td>54.</td>
<td>Medicinal and pharmaceutical products</td>
<td>20</td>
<td>7.23</td>
<td>0.00</td>
<td>7.23</td>
</tr>
<tr>
<td>58.</td>
<td>Plastic materials, regenerated cellulose and artificial resin</td>
<td>3</td>
<td>9.17</td>
<td>0.00</td>
<td>9.17</td>
</tr>
<tr>
<td>59.</td>
<td>Chemical materials and products</td>
<td>8</td>
<td>9.06</td>
<td>3.13</td>
<td>5.93</td>
</tr>
<tr>
<td>61.</td>
<td>Leather, leather manufactures, &amp; dressed fur skins</td>
<td>40</td>
<td>13.81</td>
<td>6.62</td>
<td>7.19</td>
</tr>
<tr>
<td>62.</td>
<td>Rubber manufactures</td>
<td>12</td>
<td>9.96</td>
<td>0.00</td>
<td>9.96</td>
</tr>
<tr>
<td>63.</td>
<td>Wood and cork manufactures, excluding furniture</td>
<td>13</td>
<td>13.75</td>
<td>5.19</td>
<td>8.56</td>
</tr>
<tr>
<td>64.</td>
<td>Paper, paper board and manufactures thereof</td>
<td>13</td>
<td>9.50</td>
<td>0.00</td>
<td>9.50</td>
</tr>
<tr>
<td>65.</td>
<td>Textile yarn, fabrics, made-up articles and related products</td>
<td>121</td>
<td>13.51</td>
<td>5.34</td>
<td>8.17</td>
</tr>
<tr>
<td>2-digit RITC</td>
<td>Group of Commodities</td>
<td>No. of items</td>
<td>MFN rates of post-Kennedy Round</td>
<td>GSP rates</td>
<td>Preference margin</td>
</tr>
<tr>
<td>--------------</td>
<td>----------------------</td>
<td>--------------</td>
<td>---------------------------------</td>
<td>-----------</td>
<td>------------------</td>
</tr>
<tr>
<td>66.</td>
<td>Non-metallic mineral manufactures</td>
<td>56</td>
<td>6.32</td>
<td>1.08</td>
<td>5.14</td>
</tr>
<tr>
<td>67.</td>
<td>Iron and steel</td>
<td>59</td>
<td>9.91</td>
<td>0.18</td>
<td>9.73</td>
</tr>
<tr>
<td>68.</td>
<td>Nonferrous metals</td>
<td>15</td>
<td>12.53</td>
<td>0.32</td>
<td>12.21</td>
</tr>
<tr>
<td>69.</td>
<td>Manufactures of metal</td>
<td>56</td>
<td>9.31</td>
<td>0.00</td>
<td>9.31</td>
</tr>
<tr>
<td>71.</td>
<td>Machinery other than electric</td>
<td>80</td>
<td>8.97</td>
<td>0.08</td>
<td>8.89</td>
</tr>
<tr>
<td>72.</td>
<td>Electrical machinery, apparatus and appliances</td>
<td>40</td>
<td>8.85</td>
<td>0.00</td>
<td>8.85</td>
</tr>
<tr>
<td>73.</td>
<td>Transport equipment</td>
<td>12</td>
<td>10.94</td>
<td>0.00</td>
<td>10.94</td>
</tr>
<tr>
<td>81.</td>
<td>Sanitary, plumbing, heating and lighting fixtures and fittings</td>
<td>7</td>
<td>10.00</td>
<td>0.00</td>
<td>10.00</td>
</tr>
<tr>
<td>82.</td>
<td>Furniture</td>
<td>8</td>
<td>12.50</td>
<td>0.00</td>
<td>12.50</td>
</tr>
<tr>
<td>83.</td>
<td>Travel goods, hand bags and similar articles</td>
<td>5</td>
<td>11.50</td>
<td>5.75</td>
<td>5.75</td>
</tr>
<tr>
<td>84.</td>
<td>Clothings</td>
<td>64</td>
<td>15.48</td>
<td>3.82</td>
<td>11.66</td>
</tr>
<tr>
<td>85.</td>
<td>Footwear</td>
<td>7</td>
<td>19.70</td>
<td>10.57</td>
<td>9.13</td>
</tr>
<tr>
<td>86.</td>
<td>Professional, scientific and controlling instruments, photographic and optical goods, watches and clothes</td>
<td>18</td>
<td>9.72</td>
<td>0.00</td>
<td>9.72</td>
</tr>
<tr>
<td>89.</td>
<td>Miscellaneous manufactures</td>
<td>120</td>
<td>10.54</td>
<td>0.69</td>
<td>9.85</td>
</tr>
<tr>
<td>95.</td>
<td>Firearms of war and ammunitions thereof</td>
<td>1</td>
<td>20.00</td>
<td>0.00</td>
<td>20.00</td>
</tr>
</tbody>
</table>

beneficiary countries have been affected, viz., the cases of MFN rates re-introduced when the ceilings were reached, is also quite large. Some of the items for which ceiling has been reached are rubber tyres, tyre cases, raw hides and skins, articles of leather, plywood and blackboard, nets and nettings made of twine, silk textile yarn, women's and girls' outer garments, handkerchiefs, travelling rugs and blankets, pearls, precious stones and handicrafts, etc.

Since only the experience for the last few years in the study period is available for the analysis here, it is now easy to make assessment on Japan's GSP scheme provided for the exports from India. A rough estimate in this regard can be obtained by looking into the growth of India's exports to Japan since the introduction of the scheme. The analysis made in Chapter Four gives a pessimistic version on the effect of Japan's GSP on India. Japan's imports from India did not keep pace with the overall growth of its imports and India's share in the total imports of Japan declined subsequently between 1970 and 1973. V.R. Panchamukhi assesses Japan's GSP scheme for the first two years in operation in 1971 and 1972 as follows, in terms of the impact brought by the scheme on India's export performance:

67. See p. 131.
68. Ibid., pp. 208-210.
(1) India's exports under the GSP scheme to Japan demonstrated an increase of 152.7 per cent in value terms in April-July 1972 over the same period in 1971. However, a decline was registered in August 1971 to March 1972 compared with the period in August 1970 to March 1971 with respect to the product coverage under the scheme, from 78.5 per cent to 58.4 per cent of the total value of exports of the respective periods. On the other hand, the non-GSP items in India's exports to Japan recorded a steady growth throughout the period (see Table 6.4).

(2) The performance of items under different concession groups does not show any definite association between the export performance of GSP items and the magnitude of concessions. The concession groups which show a declining trend cover about 31 per cent of the total exports under the scheme in April-July 1970, about 92 per cent in April-July 1971, 93 per cent in August-March 1971 and 31 per cent in April-July 1972;

69. Pancharatna classifies GSP items into 16 groups according to the pre-GSP tariff rate against GSP tariff rate and finds: (1) that the declining trend started in the pre-GSP periods (April-July 1970, August 1970 - March 1971 and April-July 1971) continued in the GSP periods (August 1971-March 1972 and April-July 1972) in respect of four concession groups, 1-5 per cent of the pre-GSP rate against zero per cent of the GSP rate (expressed as 1-5 to zero in the following), 6-10 to zero, 21-25 to zero and 26-30 to 11-15; (2) that the increasing trend in the pre-GSP periods continued in the GSP periods in respect of six groups, 16-20 to zero, 3.5 to 1.75, 11-15 to 6-10, 16-20 to 11-15, 21-25 and 26-30 to 11-15; (2) that the declining trend in the pre-GSP periods changed into the rising trend in respect of five groups, 11-15 to zero, 36-40 to zero, 5 to 2.5, 6-10 to 1-5, 16-20 to 11-15. See, Ibid., pp.238-240.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0. Food and live animal</td>
<td>506</td>
<td>148</td>
<td>170054</td>
<td>253314</td>
<td>170560</td>
<td>253462</td>
</tr>
<tr>
<td></td>
<td>(0.1)</td>
<td>(0.0)</td>
<td>(64.3)</td>
<td>(56.7)</td>
<td>(13.9)</td>
<td>(23.6)</td>
</tr>
<tr>
<td>1. Beverages and tobacco</td>
<td>10</td>
<td>-</td>
<td>60</td>
<td>36</td>
<td>70</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>(0.0)</td>
<td>-</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>2. Crude materials, inedible, exception fuels</td>
<td>903k65</td>
<td>592232</td>
<td>3231</td>
<td>147076</td>
<td>936745</td>
<td>739338</td>
</tr>
<tr>
<td></td>
<td>(93.5)</td>
<td>(94.3)</td>
<td>(12.6)</td>
<td>(32.9)</td>
<td>(76.1)</td>
<td>(68.7)</td>
</tr>
<tr>
<td>3. Mineral fuels, lubricants, etc.</td>
<td>2835</td>
<td>-</td>
<td>3551</td>
<td>-</td>
<td>6386</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(0.3)</td>
<td>-</td>
<td>(1.3)</td>
<td>-</td>
<td>(0.5)</td>
<td>-</td>
</tr>
<tr>
<td>4. Animal, and vegetable oils and fats</td>
<td>1522</td>
<td>1563</td>
<td>250</td>
<td>1</td>
<td>1772</td>
<td>1564</td>
</tr>
<tr>
<td></td>
<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.1)</td>
<td>(0.0)</td>
<td>(0.1)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>5. Chemicals</td>
<td>5771</td>
<td>4111</td>
<td>3871</td>
<td>8338</td>
<td>9642</td>
<td>12459</td>
</tr>
<tr>
<td></td>
<td>(0.6)</td>
<td>(0.7)</td>
<td>(1.5)</td>
<td>(1.9)</td>
<td>(0.8)</td>
<td>(1.2)</td>
</tr>
<tr>
<td>6. Manufactured goods</td>
<td>45049</td>
<td>23474</td>
<td>46443</td>
<td>30432</td>
<td>91489</td>
<td>59856</td>
</tr>
<tr>
<td></td>
<td>(4.7)</td>
<td>(3.7)</td>
<td>(17.6)</td>
<td>(6.8)</td>
<td>(7.4)</td>
<td>(5.0)</td>
</tr>
<tr>
<td>7. Machinery and transport equipment</td>
<td>406</td>
<td>96</td>
<td>1693</td>
<td>115</td>
<td>2099</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.6)</td>
<td>(0.0)</td>
<td>(0.2)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>8. Miscellaneous manufactures</td>
<td>6112</td>
<td>6593</td>
<td>3584</td>
<td>6199</td>
<td>10196</td>
<td>13104</td>
</tr>
<tr>
<td></td>
<td>(0.6)</td>
<td>(1.0)</td>
<td>(1.4)</td>
<td>(1.4)</td>
<td>(0.8)</td>
<td>(1.2)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>966196</td>
<td>628217</td>
<td>264298</td>
<td>446959</td>
<td>1230489</td>
<td>1075446</td>
</tr>
</tbody>
</table>

**Note:** Figures in the brackets give the percentage share of each item of the total of the particular category (i.e. either GSP items or non-GSP items) of the particular period (i.e. either August-March 1971 or August-March 1972).

The trend in exports of GSP items at the two-digit SITC level before and after the introduction of the GSP scheme varies from item to item. The items which showed a significant increase between August-March 1971 and August-March 1972 are fruit and vegetables (RITC 05), hides, skins, etc., undressed (RITC 21), wood, lumber and cork (RITC 24), pulp and waste paper (RITC 25), chemical elements and compounds (RITC 51), chemical materials and products (RITC 59), wood and cork manufactures (RITC 63), non-metallic mineral manufactures (RITC 66), and clothing (RITC 84). However, some of the traditional exports such as textile fabrics (RITC 26) and metalliciferous ores and metal scrap (RITC 28) registered a decline.

The structure of India's exports to Japan of GSP items and non-GSP items by one-digit SITC classification in August-March 1971 before the implementation of the GSP scheme and in August-March 1972 after then is shown in Table 6.4. The GSP exports saw little change in the structure during the period, while those of non-GSP items

70. The changes in values of exports in August-March 1972 over August-March 1971 expressed in index number taking the data of the latter period as base of the above items are as follows: fruit and vegetables, 129%; hides, skins, etc., undressed 342%; wood, lumber and cork 172%; pulp and waste paper 308%; chemical elements and compounds 444%; chemical materials and products 1506%; wood and cork manufactures 606%; non-metallic mineral manufactures 194%; clothing 178%; textile fabrics 100%; metalliciferous ores and metal scrap 82. See, ibid., p. 209.
experienced a significant change. The share of crude materials exports in the total non-GSP exports increased, whereas the shares of food and live animals and manufactured goods considerably declined. The change in the overall export structure during the period has more or less little association with the changes in export structure both of GSP items and non-GSP items.

(5) With regard to India's exports of cotton fabrics and handtools to Japan which have been taken as case studies, the average preference margin of cotton textiles including yarn and fabrics excepting readymade garments and handtools is worked out as 8.17 per cent and 7.5 per cent respectively. India's exports of textile products as a whole and handtools to Japan under the GSP scheme amounted to Rs.87,726 thousand and Rs.1,116 thousand in 1973 (see Tables 6.3 and 6.5).

6.4 **India-Japan Trade Policy Harmonisation**

India's trade policy during the study period was streamlined with the specific objective of integrating the foreign trade sector into the development process and planning. The trade policy was formulated in such a manner that imports were made to facilitate the planned economic growth, while exports were necessary to finance them. Although there existed no policy particularly directed to enhance India's
### Table 6.5

**Relationship between Domestic Export Incentives and Preference Margin under Japan’s G.S.F. Scheme for Selective Product Groups.**

<table>
<thead>
<tr>
<th>HIC Co.No.</th>
<th>Items</th>
<th>Implicit exchange rates (1967-68 to 1970-71)</th>
<th>Average preference margin under Japan’s G.S.F. Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>67 &amp; 69</td>
<td>Ferros manufactures</td>
<td>9.23 to 9.68</td>
<td>9.61</td>
</tr>
<tr>
<td>68</td>
<td>Nonferros manufactures</td>
<td>11.12 to 12.68</td>
<td>12.21</td>
</tr>
<tr>
<td>72</td>
<td>Electrical machinery,</td>
<td>10.20 to 13.92</td>
<td>8.85</td>
</tr>
<tr>
<td></td>
<td>equipments &amp; apparatus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Chemical and chemical</td>
<td>8.93 to 15.03</td>
<td>8.59</td>
</tr>
<tr>
<td></td>
<td>products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>09</td>
<td>Processed foods</td>
<td>8.14 to 8.16</td>
<td>4.26</td>
</tr>
<tr>
<td>899</td>
<td>Handicrafts</td>
<td>8.92 to 9.08</td>
<td>9.85</td>
</tr>
<tr>
<td>12</td>
<td>Tobacco and tobacco</td>
<td>7.64 to 7.75</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>manufactures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>657</td>
<td>Woollen carpets, rugs and</td>
<td>8.48 to 9.14</td>
<td>8.17</td>
</tr>
<tr>
<td></td>
<td>druggets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>84</td>
<td>Readymade garments</td>
<td>7.65 to 7.95</td>
<td>1.66</td>
</tr>
<tr>
<td>658</td>
<td>Cotton textiles</td>
<td>7.73 to 7.95</td>
<td>8.17</td>
</tr>
<tr>
<td>655</td>
<td>Natural silk fabrics</td>
<td>9.15 to 10.05</td>
<td>8.17</td>
</tr>
</tbody>
</table>

**Rank correlation co-efficient between implicit exchange rates and G.S.F. preference margins**

(a) Lower limit of exchange rates: +0.77

(b) Higher limit of exchange rates: +0.66

**Note:**
(1) Export subsidy equivalents of all export incentive schemes except duty drawbacks.
(2) Simple weighted average within a commodity group.

trade with Japan, implications can be derived for India to sustain a certain level of exports to Japan to finance important imports, generally of technological superiority.

An important development in India's trade policy during the period was that the export trade policy was kept in line with the objectives of industrialisation and planning. The export policies were framed to expand manufactured exports from India. The line of the policies might well has been followed in its export strategy towards Japan. As India's export structure to Japan showed extremely high concentration on primary commodities, the policies particularly in the 1960s provided an impetus for diversification and expansion of manufactured exports to the Japanese market.

On the other hand, Japanese trade policies stimulated the economic growth of Japan. As the Japanese economy is highly dependent on the supply of foodstuffs and industrial inputs from abroad, the import policy was formulated to ensure the stable supply of these commodities. The import policy played another important role to protect domestic industries from violent effects of international competition when the industries were at infant stages of development. The latter aspects of Japan's import policy was carefully connected with its export policy. The industries improved their competitive position by making use of tariff and non-tariff protection. Japan had introduced
intensive export promotion measures taking into account
the existence of demand in world markets as a criterion
for output expansion and technological improvement. Japan's
import liberalisation measures were introduced particularly
in two periods of time. The first is a period from 1960
when the "General Principles on Foreign Trade and Foreign
Exchange Liberalisation" was adopted and the second is a
period after 1969. Japan implemented its scheme of
generalised preferences in 1971 and its proper effect
were revealed by the end of the study period.

The diversification of India's exports to Japan,
precisely the expansion of India's manufactured exports to
Japan, is the most crucial point in the analysis of the
policy of harmonisation of the two countries. The extent
of harmonisation in trade policies of the two countries can
be considered from various points of view. Panchamukhi has
suggested one of the feasible methods of measuring it.71
To obtain the overall effect of India's trade policies for
export promotion, he works out the amount received by the
exporters of manufactures and processed products for the
goods exported worth one dollar (see Table 6.3). Terming
it as implicit exchange rate, it is assumed that cash
subsidies rate, import replenishment rate and premium on

71. Ibid., p.214.
the import replenishment license are the vital factors to influence implicit exchange rate of exports, besides duty drawback rates, which is not counted in this estimate.

The comparison of implicit exchange rates with preference margins offered by Japan's GSP scheme could reveal in one method whether India's export promotion policies for manufacturing industries are consistent with Japan's import policies. Panchamukhi finds in the analysis that the rank correlation coefficients between implicit exchange rates of India's export incentives and corresponding preference margins in Japan's GSP scheme are relatively high, which implies a certain degree of harmonisation that existed in the policies between the two countries towards the end of the study period (see Table 6.5).

6.5 Conclusion

In this chapter the trade policies of India and Japan, during the study period has been examined against the backdrop of the India-Japan trade growth.

Framing policies is usually made exclusively by the independent decisions of the individual countries. Therefore it often happens that the policies taken by a country are not compatible with those by others. The problem appears when the countries interact with one another
in the international arena. In the case of the India-Japan trade, the policy background has to be examined from the point of view of complementarity and harmony of the policies of the two countries. The analysis is considered to be more important when the fact is taken into account that there existed no policies during the period in either India or Japan which had specifically intended to expand its trade with the other. However, it was observed that the possibility of their trade growth enlarged after Japan started to provide the UCP scheme to developing countries.

Basic findings of the thesis and the suggestions thereof are presented for the future expansion of the India-Japan trade in the next chapter.