

Economic Relations between Two Countries

Mahadevappa T C

Assot. Prof. of pol science, Govt f gr. College, Deodurga

I. Introduction

The evolution of Indo-Japan economic relations: The economic ties between India and Japan evolved in the last quarter of the nineteenth century. During that period Japan's textile industry rapidly expanded which is largely dependent on outside raw materials. India attracted attention as a reliable source of raw cotton supply. In the closing years of the nineteenth century. Japanese special trade team came to India to examine the possibility of purchasing Indian cotton and endorsed the proposal for a regular cotton trade with India. The first shipment sent to Japan in 1889-90 by the House of Tata, consisted of 32 bales.¹

In 1904 a trade convention was signed between India and Japan. This gave a fillip especially to the cotton trade. Japan soon became the biggest importer of India's raw cotton, accounting for 46 percent of the cotton shipped from India in 1913-14. By 1935-36 it became the destination of more than 50 percent of the raw cotton going out of India.²

Later when Japan started to buy American cotton increasingly, there was a slow decline in the cotton trade between India and Japan and India gradually lost the position.

Because of cotton trade regular ocean transport and other trade started between India and Japan. The Indian industrialist and business pioneer Jamshetiji Nusserwanji Tata persuaded the Nippon Yusen Kaisha (NYK), a Japanese steamship company, to open a regular service between India and Japan. The Tatas placed two of their own boats at the disposal of NYK and agreed to act as its business agents in India. Within a short time NYK opened offices at different centers in India. This led to severe competition for the Bombay-Yokohama cargo traffic between NYK and the British Pacific and Orient Lines. In 1913, the Osaka Yusen, another shipping firm, opened a service to Bombay in 1924 it opened another to Calcutta.³

Until 1945 raw cotton remained the principal item in Indo-Japanese trade. The expansion of the Japanese textile industry and the growth of raw cotton trade extinguished the markets in Japan China for Indian Yarn. Eventually Japan monopolized the China market, and Japanese products started making heavy inroads into India's domestic markets also.⁴

In later period trade in other commodities also grew, but not as fast as that in raw cotton. The other commodities included raw jute and jute manufactures, chemicals and chemical products, coir manufactures, dyeing and tanning substances, lac, leather, bonemeal, metals and ores, linseed, and tobacco. The principal Indian imports from Japan were silk, wool, textile machinery, boots and shoes, cement tiles, clocks and watches, drugs and medicines, porcelain and other earthen ware, glass and glassware, iron and steel, paints and colours, and paper and paste board.⁵ In 1930-34 Japanese textiles faced stiff competition because of policies of India's tariff barriers by which British manufacturers held the dominant position in the Indian market. This crisis was resolved with the signing of an Indo-Japanese trade Agreement on 21st July 1934. This agreement was expired in March 1937 and a convention and protocol were concluded to replace it.⁶

During the Second World War period Indo-Japanese trade and economic relations were disrupted and took many years to restore them. After the end of the Second World War, India attained freedom and attached the greatest importance to achieving prepaid economic and social change in order to give substance to political freedom. When Japan came out of the economic disorder of Second World War. India and Japan agreed to utilize opportunities for mutual gain and to be a fruitful economic partnership in Asia.

But until 1958, India did not consider largely Japan in terms of economic relations even after signing of peace treaty in San Francisco in 1951. When India's first Prime Minister Jawaharlal Nehru visited Japan in 1958 Japan gave its first 18 thousand yen credit to finance India's imports of capital goods and machinery from Japan.⁷

The economic relations between the two countries are based on some fundamental economic status of both countries. Firstly, Japan's increasing role in world economic affairs brought it to look towards developing countries like India. Japan is historically better equipped to tackle any economical problems. Advanced technology and dedicated work force are the main sources of Japan's economy and these economical system are model for all developing countries. The close-knit bond between most employers and employees was natural in the small units of the lower half of Japan's dual economy, giving a paternalistic and humanistic feel to Japanese industry. The good working habits of a populace familiar with industrial labour, a large reservoir of experienced

technicians, industrialists and businessmen and a superb Govt. bureaucracy, have contributed to the fast development of economy.

United States had carried out its stringent retrenchment policies of 1949 for the progress of Japan. Economic recovery of Japan went on slowly but it gradually picked up speed, having standard education, good working habits of a populace, familiar with industrial labour, a large reservoir of experienced technicians, industrialists and businessmen and a superb government bureaucracy intent on rebuilding the economy.

As the economy recovered on the productivity board, the value of Yen raised. Despite the primary role of the Japanese in their own economic recovery, it cannot be denied that fortuitous external influences also played a major role. A much greater influence was the American occupation itself. The American involvement in Japan brought changes in many ways. It removed the costly burdens of military defence. Japan after the war, shunned any type of militarism. The United States and Japan's other erstwhile adversaries as well as its neighbours were felt happy to see Japan without arms.⁸ World conditions, however did not permit an entirely defenceless Japan and the United States, as the occupying force, naturally stepped into fill the vacuum. Japan to pay nothing for military, while other large countries were devoting between 5 and 8 percent of their G. N. P.

The Japanese created self defence force, but did not earmark so much expenditure compared with military expenditure. This arrangement permitted them to keep taxes considerably lower than in other countries. The Americans and their allies made strong efforts to reduce barriers to trade between nations everywhere and worldwide commerce flourished. This was an environment in which Japan conquered its own economic empire.⁹

Japan's economic policy and economic activities are nationalistic oriented and has global character, which is indisputable. In 1950's Japan's trade which was then mainly with the United States and other Asian countries represented only 1.5 percent of total world trade.¹⁰ During 1960's Japan's economic activities were expanded to every corner of the world, and in 1970's it accounts for more than 6 per cent of total world trade. Japan always believes in approach of global economy, which tries to avoid dependence on any one place of the world. It is an Island country having many ports by which it can easy reach to every nation for global expansion of economy.

On the other hand India is a developing country having agriculture as main source of economy with a high growth population. At the beginning India had many problems; these are poverty, unemployment, low per capita income, etc. These problems brought India under pressure to look towards countries like Japan for its developmental programmes.

Japanese growing economy had easily caught Indian eyes to give focus on bilateral trade agreements. In February 1958, two important agreements were signed which provided the basis for Indo-Japan economic relations. The agreements were related to trade, government loans and other economic exchanges. These treaties benefited India for its economic growth and to build stronger bilateral relations with Japan. The treaties are also considered as cornerstones of India-Japan commercial transactions. Since then the Indo-Japanese economic relations have remained prominent. Although India and Japan are having a different foreign policy orientations, they have developed cordial economic relations.¹¹ In the beginning the balance of economic relations always had been in favour with Japan, because of its early economic recovery. With the help of U. S. A. it dominated whole part of Asia. Until 1960's and 1970's we saw the balanced economic relations between the two countries.

The prominent items imported from Japan in the 1960's are products of heavy industries and high-grade steel, which are essential for the implementation of India's economic development programme. During these years India's share in trade with Japan was very small. In spite of having a status of regional partner, India did not find a place among the top twenty borrowers of Japanese goods. In February 4th, 1958 first yen loan agreement signed for the successful implementation of India's second five-year plan. Japan's cumulative yen loan commitments to India had reached Rs. 10,400 million and India was the second largest recipient of such loans and accounted for more than 15 per cent of the total Japanese commitments at the end of 1976.¹²

The table 1 shows the Japanese yen credits to India until March 1966.

Table – 1: (Rs. In millions)

1.	First Yen Credit Rs. 238.1 (Yen 18 billions)
2.	Second Yen Credit Rs. 452.4 (Yen 34.2 billion)
3.	Third Yen Credit Rs. 309.5 (Yen 23.4 billion)
4.	Fourth Yen Credit Rs. 285.7 (Yen 21.6 billion)
5.	Fifth Yen Credit Rs. 285.7 (Yen 21.6 billion)

Source: Embassy of Japan, New Delhi

These credits have been used for India's major public sector projects like the Gorakapur Fertilizer Factory and the Durgapur Alloy and special Steel Plant, and also used to import Japanese plants, machineries and commodities. Besides these loans, export credits in the form of deferred payments have also been made available to Indian importers of Japanese machinery and equipment.¹³

A third agreement, a quasi-official one, was signed in March 1958 providing for a private credit from the Japanese steel mills for the development of iron-ore resource in India. In return India provided a stipulated quantity of iron-ore every year to Japanese steel mills.¹⁴ Later a number of such agreements were concluded to help the development of metallurgical resources in Bailadilla Kiriburu and elsewhere. In the process the development of infrastructure such as roads and railways between the mining areas and the leading points also received encouragement. India's share of the Japanese iron-ore market has been increased over the years and still Japan is the biggest buyer of Indian iron-ore.

All these agreements provided the foundations on which more diversified contacts were made during the sixties. By 1975 nearly 941 agreements for collaboration were signed, most of them in the electrical equipment, machine, tool and fertilizer sectors.¹⁵ To enlarge technical co-operation Japan arranged a technical training programme for Indian students and many Japanese specialists and experts came to India to provide on-the-spot training and instruction. Nearly 2000 Indian students, specially from the field of electrical engineering, machinery, transportation, Business management and Agriculture, had been given training by different Japanese agencies and Japan sent 841 experts to serve in India in fields like medical care, agriculture, management and industrial production.¹⁶

Japanese agricultural experts had also come to India under the Colombo plan to set up four agricultural centers. They were, with the aid of Japanese style low power agricultural machinery. They are demonstrating advanced, scientific agricultural techniques and in particular the Japanese method of rice cultivation.¹⁷

In agricultural sector, the Japanese had advanced methods and techniques of crop production. So India had need to know these methods and techniques to develop its agriculture production. In the period of 1960s both countries signed agreements and number of demonstration farms were set up, and Indian farmers were given an opportunity to observe and learn Japanese techniques of intensive cropping, multiple cropping and scientific application of fertilizer.

All this co-operation from Japan contributed towards the success of India's Green Revolution. Japan also co-operated in setting up factories to manufacture power tillers and small agricultural tools and equipment, as well as a number of fertilizer units throughout the country. To boost the economic relations between India and Japan efforts were made to hold consultations and exchange views. In the early sixties they were agreed upon for holding annual talks between representatives of the two foreign offices and ministerial level talks.

In February, 1965 an agreement was signed between the Federation of Indian chambers of commerce and industry and a delegation of Japanese industrialists to establish a forum for exchange of views on industrial performance, export capacity, flow of capital and know how and joint industrial ventures in third world countries. This forum holds its annual meeting alternatively in India and Japan and is trying to strengthen bilateral trade and economic relations.

Another important forum was established for the sole purpose of promoting co-operation in carrying out studies relating to the problems of economic development and exchange of introduction on the techniques and experience of economic planning.

The above points indicate that in 1960s and 1970s India's relations with Japan are friendly in trade, finance and industry. During that period whatever results so far achieved by this co-operative relationship have been mutually beneficial. India had to achieve many goals such as rapid expansion of the volume and variety of its exports, realization of higher unit value for its exports and use of better techniques of production.¹⁸ To achieve these goals Japan can certainly play an important role with its rapidly increasing reserves of capital and industrial technology.

Thus many factors contributed to Japan becoming an economic giant in the world. On the other side India's economy not grown that much of Japan's economy, even though India is geographically bigger and having more natural resources than Japan. India's economy started to grow when it introduced the new policy of economic liberalization in 1991. Before this year the economic co-operation between the two countries restricted only to limited items like – agricultural products, fisheries, shipyard, steel, fertilizer, electric motors, railway signaling equipments and industrial technology.

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