



India-Japan Trade: Historical Roots and Policy Assessments

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Abstract

This paper attempts to analyze the trade policies of India and Japan, specifically in the post-World War II era. This period is significant because while Japan underwent radical economic, social, and political transformations following the war, India simultaneously gained its independence. Foreign trade plays a monumental role in the economic progress of any nation, which is why it is often referred to as the "Engine of Growth." To accelerate the development process, India initially emphasized policies of licensing, permits, quotas, Import Substitution, and Export Promotion after independence. However, post-1991, the focus shifted toward the policies of Liberalization, Privatization, and Globalization (LPG), along with a significant emphasis on the "Look East Policy."

Following World War II, the pace of Japan's development remained relatively slow, and the nation did not initially show a keen interest in global trade. However, after the 1960s, Japan recognized the critical importance of commerce and restructured its foreign trade policies. These policies were meticulously designed not only to increase the volume of exports but also to ensure that trade became the primary contributor to economic growth. By prioritizing the Export-led Growth Model, Japan successfully transformed itself and established its status as a developed nation within a remarkably short period.

Keywords: Radical transformations, Import Substitution, Foreign Trade Policy, EXIM Policy, Engine of Growth, Reform, Primary contributor, Export-led Growth Model, Look East Policy.

INTRODUCTION

The roots of Indo-Japanese relations span several centuries, tracing back to the introduction of Buddhism to Japan via the Korean Peninsula. Since the establishment of formal diplomatic ties following the first democratic elections, both nations have deepened their friendly relations through cultural, commercial, economic, and technical cooperation. In the contemporary era, these two major Asian powers share profound strategic interests anchored in common values such as democracy, human rights, and a market-driven economy. Both nations are consistently striving to elevate their bilateral relations to new heights, particularly within the economic sphere.

Japan maintains a global dominance in technological innovation and industrial prowess, making it an indispensable partner in India's various national development programs. Amidst a rapidly shifting global landscape, Japan acknowledges the necessity of mutual cooperation to ensure the continued prosperity and economic growth of Asian nations. Regarding Japan's own progress, the pace of its economic development following the aftermath of World War II has been so awe-inspiring that it is regarded as one of the most extraordinary economic sagas in modern history. Japan's post-war resurgence continues to serve as a beacon of inspiration for nations across the globe.

International trade as engine of growth:

International trade plays a vital role in promoting economic growth by connecting countries through the exchange of goods and services. It acts as an engine of growth in several important ways. Without International trade it is not possible to fulfill the demand for petroleum products and it will retard the economic development of our country. Due to all these above reasons, International trade has got an important place in all country.

India's trade policy:-

India's past experience under colonial rule greatly influenced its trade policy in the early years after independence. The country faced a shortage of foreign exchange, so the government focused on using it only for important needs related to economic development. The main goals of India's trade policy were to promote industrialization and achieve self-reliance in essential goods.

India's trade policy before 1991:-

India's trade policy in the early years after independence was relatively liberal, aimed at satisfying the pent-up demand that emerged after the Second World War. However, this approach soon led to a significant trade deficit, forcing the government to introduce restrictions on imports, particularly from hard currency regions. As India progressed through its planning phases, trade policies were revised periodically. During the First Five-Year Plan (1951–56), there was no well-defined trade policy, and import controls were largely absent.

In the Second Plan, the emphasis on heavy industry led to a sharp increase in imports, which strained the country's balance of payments. To address this, the government introduced selective quantitative restrictions and an import licensing system to promote the growth of specific domestic industries. The strategy of import substitution was encouraged, while exports did not receive much attention

as a growth driver. In the early 1960s (1961–66), quantitative restrictions on imports continued. In the latter half of the decade (1966–68), following the devaluation of the Indian currency in June 1966, efforts were made to streamline and rationalize export incentives. During this period, export subsidies were reduced, export duties were imposed, and import duties were lowered. However, from the late 1960s to the mid-1970s (1968–75), the initial steps toward liberalization were reversed, and import policies became more restrictive and complicated.

Between 1975 and 1985, import allocation procedures were simplified, although protective quotas remained in place, ensuring that domestic industries were largely insulated from foreign competition. The trade policies introduced during 1985–88 and 1988–91 brought further simplifications. However, due to unexpected political developments, the second policy period ended a year early. Subsequently, a new policy covering April 1, 1990, to March 31, 1993, was announced by the Government of India on March 30, 1990. India's New Trade Policy since 1991

The trade policy introduced after 1991 aimed at bringing significant structural changes to the Indian economy. It sought to integrate industrial policy, trade policy, and exchange rate policy in order to improve overall economic efficiency. The main objectives were to reduce discretionary government controls over international trade, lower the level of protection provided to domestic industries, and align domestic prices more closely with global market prices. India's trade policy since 1991 can be described as a shift from a highly controlled regime to a more liberalized and market-oriented system. Its core purpose is to make international trade more competitive, transparent, and aligned with global standards, while the recent developments also highlight innovation, digital transformation, and sustainable growth as key priorities.

NEW TRADE POLICY

1992–1997

On March 31, 1992, the Government of India announced a new five-year Export-Import (EXIM) Policy. This policy further accelerated the process of liberalization by allowing the import of almost all goods, except those included in a negative list. At the same time, several raw materials were decanalized, and the import of capital goods was made easier, particularly when linked with export obligations.

- I. Exports of most goods were made free, with only a few items placed under restrictions.
- II. The duty exemption scheme was expanded, and a value-based advance license was introduced along with the quantity-based system.
- III. Selected exporters and export categories were granted special import licenses.
- IV. Export houses, trading houses, and star trading houses were allowed self-certification under the advance license scheme, enabling duty-free imports for export production.

1997–2002

On March 31, 1997, another five-year EXIM Policy was introduced, continuing the liberalization process. This policy further reduced import restrictions and simplified trade procedures.

- ❖ The list of quantitative restrictions on imports was further curtailed.
- ❖ Trade procedures were made simpler and more transparent.
- ❖ Special incentives were provided to agriculture and allied sectors.

- ❖ The Value-Based Advance License (VABAL) and Passbook Scheme were discontinued.
- ❖ A new Duty Entitlement Passbook Scheme (DEPB) was introduced in their place.

2002–2007

This policy came into effect on April 1, 2002, and remained valid until March 31, 2007, aligning with India's Tenth Five-Year Plan. Its primary focus was to promote exports and strengthen the competitiveness of the Indian economy.

- To ensure sustained growth in exports and raise India's share in global trade to at least 1%.
- To provide access to essential inputs such as raw materials, intermediate goods, and capital goods for production and services.
- To enhance the technological capabilities and efficiency of agriculture, industry, and services, thereby generating employment opportunities.
- To provide consumers with high-quality goods at internationally competitive prices while ensuring a level playing field for domestic producers.

2009–2014

The main objective of this phase was to halt and reverse the decline in exports caused by the global economic slowdown, particularly in sectors affected by recession in developed economies.

- ✓ To achieve an annual export growth rate of around 15% in the short term.
- ✓ To significantly increase exports by 2012.
- ✓ To restore a higher export growth trajectory of about 25% annually in the later years.
- ✓ To double India's exports of goods and services by 2014.
- ✓ To increase India's share in global trade in the long run.

2015–2020

After 2014, India introduced a new Foreign Trade Policy for 2015–2020 with the aim of simplifying export promotion schemes and enhancing global competitiveness.

- Introduction of schemes like MEIS (Merchandise Exports from India Scheme) and SEIS (Service Exports from India Scheme).
- Promotion of the "Make in India" initiative to boost domestic production and exports.
- Simplification of trade procedures and reduction of complexities.
- Encouragement of exports from MSMEs and the service sector.

2023

The new Foreign Trade Policy (FTP 2023), announced by the Government of India in 2023, is a flexible, modern, and digitally driven policy. Its primary objective is to make India a strong and competitive player in global trade. Unlike the traditional five-year policies, it is not fixed for a specific period and can be modified from time to time as per requirements.

- Strengthening India's global position by boosting exports.
- Promoting digital and paperless trade systems.
- Developing MSMEs, startups, and districts as "Export Hubs."
- Emphasizing green and sustainable trade practices.

- Ensuring greater participation in global value chains (GVCs).

Evolution of Trade Policy Framework in Japan

From the late 19th century, Japan's rapid rise inspired many Asian nations, as it demonstrated the possibility of economic revival through modernization. After the Second World War, Japan re-entered the global economic system and began rebuilding its economy. From around 1948 onwards, the country experienced an exceptionally fast rate of economic growth, which surprised the rest of the world.

Japan's remarkable economic expansion during the 1960s, often referred to as its "miracle growth," became a model for many developing countries. Between 1946–1960 and 1960–1975, Japan recorded impressive annual growth rates of approximately 9.4% and 8.3%, respectively. This rapid progress can largely be explained by three major factors. First, there was strong investment in machinery and equipment by private firms, aimed at competing effectively both domestically and internationally. Second, Japan benefited from a well-developed education system, which ensured a steady supply of skilled labor. Third, a high level of personal savings provided a strong financial base for investment in industrial development. In addition to these factors, Japan's growth was deeply rooted in the discipline, determination, and innovative capacity of its people. As the economy expanded, the industrial structure underwent significant transformation, and exports became a key driver of growth. Japan's strict focus on quality control and its commitment to timely delivery of goods further strengthened its position in global markets.

Foreign Trade Policy – Export-Led Strategy

Since the mid-1960s, Japan gradually shifted from being one of the more restrictive trading nations to becoming, at least formally, one of the more open economies. Particularly during the 1980s, trade liberalization advanced, although certain structural features of the Japanese economy—such as complex distribution networks, subcontracting systems, and close inter-firm relationships—continued to act as indirect or non-tariff barriers to trade. By the late 1980s and early 1990s, these structural barriers began to receive increasing international attention, and Japan faced pressure to make its markets more accessible and transparent.

Japan's Trade Policy (Modern Perspective)

In recent years, Japan has further evolved its trade policy framework to adapt to globalization and regional integration. The country has actively participated in major international trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership. These agreements aim to reduce trade barriers, promote investment, and strengthen economic ties across regions.

Key features of Japan's modern trade policy include:

- ❖ A strong emphasis on free trade agreements (FTAs) and regional partnerships
- ❖ Promotion of high-quality exports, especially in technology and manufacturing
- ❖ Efforts to ensure supply chain resilience and economic security
- ❖ Increased focus on digital trade and innovation
- ❖ Commitment to sustainable and environmentally friendly trade practices

Overall, Japan's trade policy has evolved from a relatively controlled and protective system to a more open, export-oriented, and globally integrated framework. Its success has been driven by strong industrial capabilities, skilled human resources, and a consistent focus on quality and efficiency. In the present era, Japan continues to strengthen its position in global trade through strategic agreements, innovation, and sustainable economic policies.

Agreements between the Republic of India and Japan

India and Japan formalized their relationship by signing a peace treaty and establishing diplomatic ties on April 28, 1952. This agreement was among the earliest treaties concluded by Japan following the Second World War. The two nations later commemorated the 60th anniversary of their diplomatic relations, reflecting the long-standing and friendly nature of their partnership.

India–Japan Strategic Alliance: Chronological Development

- ❖ 1958 – Agreement on commerce between India and Japan to strengthen bilateral trade relations.
- ❖ 1958 – Japan participated in the consortium of India's creditor countries organized by the World Bank and began large-scale economic assistance to India.
- ❖ 1966 – Establishment of India–Japan and Japan–India Business Cooperation Committees.
- ❖ 1978 – Beginning of formal trade talks between India and Japan covering bilateral trade and investment.
- ❖ 1986 – Japan emerged as India's largest aid donor.
- ❖ 1998 – Bilateral relations faced strain after India conducted nuclear tests.
- ❖ 2001 – Japan–India Joint Declaration (10 December) to enhance trade and economic cooperation.
- ❖ 2006 – Declaration of Strategic and Global Partnership between the two countries.
- ❖ 2007 – Joint statement outlining a roadmap for new dimensions in the partnership.
- ❖ 2008 – Joint statement on advancing the Strategic and Global Partnership.
- ❖ 2008 – Joint Declaration on Security Cooperation.
- ❖ 2009 – Joint statement by Yukio Hatoyama and Manmohan Singh marking a new stage of the partnership.
- ❖ 2011 – Signing of the Comprehensive Economic Partnership Agreement (CEPA).
- ❖ 2014 – Partnership upgraded to “Special Strategic and Global Partnership” by Narendra Modi and Shinzo Abe.
- ❖ 2015 – Agreement on the Mumbai–Ahmedabad High-Speed Rail (Bullet Train) project.
- ❖ 2016 – Signing of the Civil Nuclear Cooperation Agreement.
- ❖ 2017 – Launch of the Act East Forum to promote development in India's Northeast.
- ❖ 2018 – Agreement to establish the 2+2 Dialogue (Foreign and Defence Ministers).
- ❖ 2019 – Cooperation under the Supply Chain Resilience Initiative (SCRI).
- ❖ 2020 – Signing of the Acquisition and Cross-Servicing Agreement (ACSA) between Narendra Modi and Yoshihide Suga.
- ❖ 2021 – Expansion of cooperation in digital technology, cybersecurity, and 5G.
- ❖ 2022 – Announcement of a 5 trillion yen investment plan by Fumio Kishida for India.

- ❖ 2023 – Strengthening collaboration in semiconductors, green energy, and advanced technologies.
- ❖ 2024 – Continued cooperation in supply chains, digital economy, and Indo-Pacific strategy.

Japan has been providing bilateral economic assistance to India since 1958 and has emerged as its largest Official Development Assistance (ODA) partner in recent times. On February 4, 1966, a ten-point agreement was announced between the Japanese mission and Federation of Indian Chambers of Commerce and Industry. One of the key provisions of this agreement was the establishment of India–Japan and Japan–India Business Cooperation Committees in both countries. These committees were designed to strengthen mutual understanding and goodwill between the business communities and to promote trade and economic collaboration.

These committees have regularly organized meetings in India and Japan on an alternating basis to fulfill their objectives. The first joint meeting of the Business Cooperation Committee was held in Tokyo in September 1967. A new phase in bilateral relations began in the 1980s with the establishment of the Maruti–Suzuki joint venture, which marked Japan’s significant entry into India’s automobile sector. Furthermore, the Science and Technology Agreement signed during the visit of Rajiv Gandhi in November 1985 enhanced cooperation and exchanges in this field. With the end of the Cold War, India adopted its “Look East Policy” in the early 1990s, along with economic liberalization and an open-door approach. This led to a steady rise in bilateral trade and Japanese investments, as India increasingly became an attractive long-term destination for Japanese businesses. However, relations faced a setback after India’s nuclear tests in May 1998, when Japan temporarily suspended political dialogue and economic assistance for nearly three years. Relations improved again in August 2000, when Yoshiro Mori visited India, helping to restore momentum. Later, the visit of Junichiro Koizumi in April 2005 further strengthened the partnership, redefining it as a significant bilateral and strategic relationship. Growing economic, political, and energy-related needs of both nations gradually encouraged deeper cooperation, making this partnership one of the most important in Asia. During the visit of Manmohan Singh to Japan in December 2006, relations entered a new phase. A joint task force was set up to work towards an Economic Partnership Agreement, and several Memorandums of Understanding (MOUs) were signed, marking enhanced collaboration.

The Comprehensive Economic Partnership Agreement between India and Japan aimed to:

- ❖ Promote and simplify trade in goods and services
- ❖ Increase investment opportunities and ensure protection of investments
- ❖ Safeguard intellectual property rights and encourage cooperation
- ❖ Strengthen the enforcement of competition laws
- ❖ Improve the overall business environment
- ❖ Build a framework for deeper economic cooperation
- ❖ Establish mechanisms for implementation and dispute resolution

CEPA significantly boosted economic ties. Under this agreement:

- India agreed to remove tariffs on about 90% of imports from Japan
- Japan committed to eliminating tariffs on around 97% of imports from India over a period of 10 years

- Barriers to trade in services, investments, and movement of professionals were reduced

As a result, tariffs were lowered on thousands of products, including pharmaceuticals, textiles, agricultural goods, and machinery. This was expected to substantially increase bilateral trade. The Japan Chamber of Commerce and Industry in India also reported a strong response, issuing a large number of certificates of origin shortly after the agreement came into force.

Economic Relations after 2011

After 2011, India–Japan economic relations have expanded significantly and diversified into new areas:

- Infrastructure Development:** Japan has played a major role in funding large-scale infrastructure projects such as metro rail systems, industrial corridors, and the Mumbai–Ahmedabad High-Speed Rail project.
- Investment Growth:** Japanese companies have increased investments in sectors like automobiles, electronics, renewable energy, and manufacturing under initiatives like “Make in India.”
- Industrial Corridors:** Projects such as the Delhi–Mumbai Industrial Corridor (DMIC) have strengthened industrial and logistical connectivity.
- Supply Chain Cooperation:** Both countries have collaborated to build resilient supply chains, especially after global disruptions, along with partners in the Indo-Pacific region.
- Technology and Innovation:** Cooperation has expanded into advanced areas like digital technology, semiconductors, artificial intelligence, and green energy.
- Recent Investments:** In 2022, Fumio Kishida announced a major investment plan in India, further boosting economic ties.
- Sustainable Development:** Both countries are focusing on clean energy, climate change mitigation, and sustainable infrastructure.

Conclusion

India is an emerging economic power and Japan is an economic power. India and Japan have developed a strong and dynamic economic partnership over time. India has a great potential for development. Proper trade policy can be of much help for in relining this potential. Trade policies of India and Japan should be framed in such a manner that both countries can harness there potential. Historically balance of trade has been in favour of Japan. This needs to be changed which can be done only by improving quality of our export to Japan and by diversification of export goods. Over time, the India–Japan relationship has evolved from basic trade cooperation into a comprehensive strategic partnership. Today, it encompasses economic, technological, and defense collaboration, playing a crucial role in promoting stability and growth in the Indo-Pacific region.

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