

# ECONOMIC TIES BETWEEN PAKISTAN AND JAPAN

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## Abstract

*The trade relations between Pakistan and Japan began before the establishment of diplomatic relations in 1952. In 1960 both the countries signed Commerce Treaty which granted most favored nation status on trade and entry of nationals of the signatories. The trade has mostly remained in favor of Japan, however, Pakistan also received benefit from the Japanese aid in the various sectors.*

*Pakistan should improve standard of its exports Japan to capture the market in view of goods of other countries penetrating into Japanese market. Moreover, Pakistan should also focus on export of non-traditional items to Japan aimed at earning more foreign exchange.*

The recovery of Japan's economy and independence of Pakistan as a sovereign country were two major Asian developments that took place soon after the Second World War. The subsequent development and extension of trade between the two countries are but natural consequences of the interplay of economic forces and the complementary nature of the two countries.

In the post-Second World War scenario, the economy of Japan had to face a new pattern as it was to recover from the loss of the war and rebuild economy to raise the living standard of its subjects. The country had to entirely depend upon the American aid and earning from food came for the American forces stationed in the country under terms and conditions decided between the two countries.

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Trade in dollar currency paved the way for growth of Japanese economy. But, soon it had to sustain reversal when Korean crisis came to an end, the procurement orders drastically reduced leaving the economy near to lurk. However, Japan reactivated its industries and imported raw materials. Moreover, Prime Minister Kishi's economic diplomacy also infused vigor and power. Consequently economy got boost. The main secret of economic development of Japan is its proper management of human resources.

During the 1950s and early 1960s the Japanese government exercised strict control over foreign trade and exchanged dealings in order to protect Japanese manufacturers from competition in their home markets, and to strengthen their capacity to sell abroad. Japan's elaborate structure of trade restriction was dismantled under the pressure from her trading partners. Since late 1960s Japan's import policies have been continuously liberalized. This does not mean that imports into Japan are free from artificial barriers. Although overt and formal quantitative restrictions are few, some individual sectors are heavily protected. Agriculture being the most important example. Government regulations have a visible effect on agricultural products. Rice, wheat, sugar, beef and dairy products are among the most prominent. Although Japan's formal NTBs, or quantitative restrictions, are relatively few, but these formal NTBs still remain high in agriculture. The protection to the agricultural sector is provided by means of import restrictions and massive provision of direct and indirect subsidies. The imposition of these barriers is probably the largest single factor to negatively affect the market opportunities of Pakistan, as Pakistan is basically an agricultural country with a potential to export the agricultural products to Japan.<sup>1</sup>

"Pakistan exported raw cotton to Japan and it processed the cotton into yarn and cloth and then exported these to Pakistan. This pattern shifted later on as Japan began to export spinning machinery to

Pakistan and then textile yarn and fabrics formed the largest component of Pakistani exports to Japan.”<sup>2</sup>

Pakistan's trade with Japan in first two years of its independence (1947-48) was negligible. During 1948-49 (April to March) exports to Japan were valued Rs. 11,633,704 as against imports from Japan valued at Rs. 1,720,355. During this period, the main exports consisted of raw cotton (19,830 bales) valued at Rs.10,577. Major imports during this period consisted of chiefly of cotton piece goods (Rs.6,138,783), cotton twist and yarn (Rs. 3,202,991), artificial silk and yarn (Rs.156,653). Other items included clocks and watches, earth ware and porcelain, glass and glass ware, rubber goods, artificial piece goods.<sup>3</sup>

The early years of economic cooperation witnessed increase of Japan's importance in Pakistan's economy. In 1950-51, Pakistan's total export of cotton was worth Rs.98.75 crores, against Rs.32 crores accounted for export to all the countries of Western Europe combined. In 1951-52, the total exports of cotton came down to Rs.77.73 crores, out of which Japan's share was Rs.20.0 crores, as against share of Rs.21.0 crores of all the countries of Europe combined. Thus, Japan was No.1 purchaser of our cotton during the crucial phase of Pakistan's economy.

Over the years, since the emergence of Pakistan as an independent country, the bonds between Pakistan and Japan were strengthened because both the countries were closer to the American alliance system against the communist powers. Due to the emergence of the interests, Pakistan was a net giver and benefited from Japan's assistance in particular. Japan's technical assistance till June 1961 amounted to 94.05 million yen.<sup>4</sup> This covered the cost of facilities (21.74 million yen), expert advisory services (60.48 million yen) and equipment (11.80 million yen). Japan sent sixty one experts provided sixty four training facilities to Pakistan till December, 1961 as a part

of technical assistance program. Sixteen Japanese experts came to Pakistan to demonstrate Japanese methods of rice cultivation. A team of the experts advised the then East Pakistan government on small industries. The expert advisory services were also received in the fields of mining, engineering and communication. Training facilities offered by Japan were also utilized in the fields of agriculture, pest control, cottage industry, ceramics and engineering etc. Equipments supplied by Japan mainly consisted of agricultural and machinery and films on Japanese methods of rice cultivation and tools for demonstration purposes.<sup>5</sup>

Japan introduced the General System Preferences (GSP) on August 1, 1971. The scheme was extended twice in 1981 and 1991. The Japanese imports grew after the introduction of GSP. Currently 184 countries, including Pakistan, are the beneficiaries of Japan's GSP. Although GSP is meant to encourage the imports but its conditions are strict on the commodities in which developing countries have competitive edge for example, textile and footwear. In contrast, Conditions are most lenient for the products in which developing countries are less competitive, such as machinery, which limits the significance of the GSP scheme. Moreover, there is a tendency for small groups of developing countries to monopolize the benefits. ASEAN countries are a good example as the Japan's trade with these countries is continuously on the rise.<sup>6</sup>

Besides providing technical assistance, Japan also offered loans and grants to Pakistan on easy terms. It offered Pakistan a credit of 20 million US dollars from Japan to import textile machinery from the donor country. It carried interest at the rate of 5.75% and was repayable in 8 years in half yearly installments. The break up of the loan is given below:<sup>7</sup>

<b>Province</b>	<b>Spindles</b>	<b>Loans</b>	<b>Amount committed in Million US Dollars</b>
West Pakistan	96,410	3,183	8.35
East Pakistan	206,304	2,000	11.95
Total	302,714	5,183	20.30

Japan has been extending its Official Development Assistance (ODA) to Pakistan since the beginning of 1960. Japan's such help was for taking following grounds in account:

- (1) Pakistan plays an important political role in South West Asia and also among the Islamic countries and maintains traditionally friendly relations with Japan. Also Japan is Pakistan's largest trading partner;
- (2) While confronting difficult social and economic problems including high population growth rate, a low literacy rate, growing unemployment, energy shortages, persistent budget and trade deficit, Pakistan is actively pursuing domestic development and is, therefore, in great need of assistance.
- (3) Pakistan has been promoting various forms of deregulation including economic liberalization and privatization of state owned enterprises.

The ODA loan is being provided to Pakistan under Yen package. Japan discontinued it in 1998 in view of the nuclear tests conducted by Pakistan in May 1998. However, it lifted its sanctions after Pakistan's joining international coalition for war on terror and self imposed moratorium on further nuclear tests. The ODA loan was continued in 2005.

Japan was amongst the five top countries which provided economic assistance to Pakistan through Consortium for Third Five Year Plan

(1965-70):<sup>8</sup>

<b>Lending Country</b>	<b>1965-66</b>	<b>1966-67</b>	<b>1967-68</b>	<b>Sub-total</b>	<b>Total</b>
Belgium	-	0.5	1.0	1.5	11.1
Canada	25.4	25.4	25.4	76.2	106.0
France	10.0	10.0	10.0	30.0	47.1
Germany	40.0	38.8	38.8	117.6	166.0
Italy	20.0	30.0	30.0	90.0	90.0
Japan	30.0	30.0	30.0	90.0	90.0
Netherlands	4.8	4.4	4.4	13.6	14.3
U.K	22.4	22.4	19.2	64.0	64.0
U.S	-	-	35.0	35.0	101.0
World Bank	49.0	35.0	161.0	245.0	283.2
<b>Total</b>	<b>251.6</b>	<b>336.5</b>	<b>504.8</b>	<b>1,902.9</b>	<b>1,404.0</b>

From 1950 to 1967, Japan extended economic assistance in shape of loan amounting to \$ 261.965 US dollars.<sup>9</sup>

According to statistics issued by Ministry of Finance, Government of Pakistan in 1970, foreign trade between Pakistan and Japan remained as under:

<b>Financial Year</b>	<b>Export</b>	<b>Import</b>
1951-52	219,439	467,324
1952-53	279,510	143,620
1953-54	177,801	63,829
1954-55	138,726	149,684
1955-56	186,513	142,371
1956-57	223,341	64,049
1957-58	141,624	104,791
1958-59	139,363	78,376
1959-60	137,216	198,006
1960-61	123,024	251,672
1961-62	108,644	274,074
1962-63	205,713	288,768

1963-64	130,424	377,903
1964-65	131,197	
1965-66	131,206	420,940
1966-67	119,448	420,940
1967-68	2522,089	586,122
1968-69	175,725	563,818
1969-70	171,961	251
1970-71	226,417	539,098

Till mid of the 1970s, the balance of trade between the two countries remained in favour of Japan. The following table indicates the figures of balance of trade:<sup>10</sup>

Year	Imports	Exports	Balance
1970-71	358.5	194.6	- 163.9
1971-72	349.5	540.1	+ 190.6
1972-73	721.1	1,562.1	+ 841.0
1973-74 (July-March)	733.6	446.6	- 287.0

In comparison to 1982-83, the export and import from Japan increased by 129.86% to 38.23% in 1990-91 as may be observed from the following table:<sup>11</sup>

Year	Export to Japan	% (+) Increase (-) Decrease	Import from Japan	% (+) Increase (-) Decrease	Balance of Trade	% (+) Increase (-) Decrease
1982-83	221	-	714	-	493	-
1983-84	238	7.7	812	13.7	574	16.7
1984-85	300	-26.0	787	3.1	487	15.2
1985-86	294	-2.0	837	6.4	543	11.5
1986-87	400	36.0	82	5.4	482	11.2
1987-88	502	25.5	960	8.8	458	9.9
1988-89	457	15.5	857	10.2	418	3.5
1989-90	508	11.2	987	12.8	479	14.6
Total	3461	-	7828	-	4367	-

% Increase in 1990-91	129.8		38.23		12.839 (\$m)	
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During the same period, Pakistan exported only 507.5 million US dollars and imported commodities and articles worth of \$ 986.8 million. This deficit in export and import is clearly indicated in the following table:<sup>12</sup>

Export Items	Amount	%	Import Items	Amount	%
Cotton yarn	312.9	61.7	Automobiles	398.4	40.7
Raw cotton	50.7	10.0	Machinery	312.4	31.7
Fish & Fish Preparations	8.1	5.5	Chemical	58.7	5.9
Cotton 1	19.1	3.8	Synthetic	29.1	2.9
Carpets & Rugs	14.7	2.9	Fertilizer	8.6	0.9
Total	507.5	100.0	Total	986.8	100.0

The average annual development aid to Pakistan amounted around 55 million US dollars in 1970s, 246 million US dollars in 1980s and 412 million US dollars in 1990s.<sup>13</sup>

The gradual increase in Japanese aid was due to the changed international scenario. The Union of Socialist Soviet Republics (USSR) landed its forces in Afghanistan in December, 1979 which put the interests of the Western bloc in jeopardy. The United States desired to contain advancement of the Soviet forces and helped the Afghans to fight against the invaders. It found Pakistan as frontline state in the war and extended unprecedented aid in the history of the two countries. The western countries also came forward to aid Pakistan. Japan followed the suit of its western allies.

During 1991-92 about 14.3% of Pakistan's imports were from Japan. The country imports with its percentage share in the total imports from 1989-90 to 1991-92 was as under:<sup>14</sup>



Country	1989-90	%share	1990-91	%share	1991-92	%share
Japan	875	12.6	987	13.0	1325	14.3
USA	955	13.8	90	11.8	971	10.5
Germany	532	7.7	553	7.3	736	8.0
Saudi Arabia	313	4.5	478	6.2	485	5.3
France	129	1.9	220	2.9	438	4.7

During 1993-94, the Asian countries remained the largest buyer of Pakistani products with 41.7% of the total exports followed by Europe 34.6%. The leading markets for Pakistan's exports during the said period were concentrated in the USA, Japan and Germany. The percentage share of Pakistan exports with major countries of the world is detailed below:<sup>15</sup>

Country	199 1-92	1992-93	1993-94
Japan	14.3	15.9	11.8
US	10.5	9.4	10.6
Germany	8.0	7.5	7.7
Malaysia	4.2	5.1	5.5
Saudi Arabia	5.2	5.4	5.4

The balance of trade between the two countries remained in favor of Japan. Pakistan's exports declined from 479.2 million US dollars in 1996-97 to 271.4 million US dollars in 1998-99 to 192 million US dollars in 2000-01. Imports also observed decline from 1,029.3 million US dollars in 1996-97 to 798.7 million US dollars to 577.5 million US dollars in 2000-01.

The unfavorable trade of balance of Pakistan with Japan in the 1990s was due to vulnerable changes in the world and bad weather in Pakistan. The decline in cotton production seriously affected the export level. Moreover, the political uncertainty in 1993 left bad impact on the country's economic situation. Further, Pakistan's economic and trade liberalisation during 1990s proved unfruitful in

improving social and economic development, almost all socio economic indicators were reversed by the 1990s.

During 1990-91 to 1999-2000 Pakistan's major export went to seven countries namely, USA, Germany, Japan, UK, Hong Kong, Dubai and Saudi Arabia. Among these countries, the share of Pakistan's exports to USA has been increasing persistently while that of Japan exhibited a continuous decrease mainly due to the protracted recession in the Japanese economy. Nearly above one-half of Pakistan's exports during the period from 1990-91 to 1999-2000 went to above seven countries. Among these countries, the share of Pakistan's exports to USA has been increasing continuously and share of Pakistan exports to Japan shows persistently decrease. Pakistan's exports to Japan declined by 62.65% in the year 1999-2000 in comparison of 1990-91. Pakistan exports to Japan had a rising trend up to year 1993-94 but started declining mainly due to the antidumping duties of Japanese government on textile imports from Pakistan in 1995 and partially because of the rising trade between Japan and ASEAN countries.....The imports from Japan increased since 1992-93 and started declining from 1993-94 to 1999-2000. The probable reasons may be the joint venture between Pakistan and Japan in the automobile sector and the discouragement of Pakistani government for these imports to develop the home industry and conserve the foreign exchange reserves.<sup>16</sup>

During 2002-03, exports from Pakistan to Japan were worth 134.8 million US dollars while imports from Japan amounted to 936.3 million US dollars.<sup>17</sup> The year 2003-04 observed exports worth 141 million US dollars and imports 832 million US dollars.<sup>18</sup> In 2004-06, exports to Japan totaled 164.5 million US dollars where as imports from Japan stood at 1,448.807 million US dollars.<sup>19</sup>

Pakistan had a continuous trade deficit with Japan during the period 1993-94 to 2005-2006 as indicated under:<sup>20</sup>

<b>Year</b>	<b>Import</b>	<b>Export</b>	<b>Balance</b>
1993-94	1008.05	542.67	-465.38
1994-95	994.0	543.01	-450.99
1995-96	1270.64	582.50	-688.14
1996-97	1029.33	479.16	-550.17
1997-98	792.83	360.76	-432.07
1998-99	785.69	271.35	-514.34
1999-00	267.48	650.49	-383.01
2000-01	191.97	577.46	-385.49
2001-02	166.90	518.49	-351.59
2002-03	142.07	804.20	-662.13
2003-04	134.77	929.21	-794.44
2004-05	164.39	1,449.11	1,284.72
2005-06	128.10	1840.56	1,712.46

Japan is the fourth largest investment partner of Pakistan with cumulative investment of 385.9 million during the period of 1989-90 to 2003-04, constituting 5% of the total in Pakistan. The big surge of investment observed in 1995-96 in Independent Power Products projects. The Japanese investment recovered and increased by 7% during the period of 2002-04 due to the increase of the investment in the automobile sector. During 2003-04, Japanese Foreign Direct Investment in Pakistan amounted to 9.3 million US dollars.<sup>21</sup> Major sectors of Japanese investment are joint venture projects mainly in automobiles for example Pak-Suzuki Motor (Suzuki), Indus Motor (Toyota), Honda Atlas, Gandhara Nissan Diesel (Nisan Diesel) and Hino Pak Motors (Hino). Other sectors include leasing, investment bank and power projects. A paper mill based on Japanese technology for production of tissue paper from cotton waste has been established in the vicinity of the power plant by the Prestige Papers. The trade between Pakistan and Japan remained in favor of former till mid 1960s. Afterwards, the balance of trade shifted in favor of Japan due to low standard of commodities imported to Japan, imposition of anti-dumping duties at the rate of 9.9%, strict conditions under General System Preferences (GSP), contamination

in cotton exports, rising trade between Japan and ASEAN countries and failure of exporting of non-traditional items to Japan. Though Japan had pumped millions of dollars in Pakistan's economy in shape of grants and loans but interests of donor country, mismanagement in economy of donee country, deteriorating law and order situation and state of uncertainty in Pakistan lessened the chances of taking full advantage of Japan's assistance. The Japanese investment, mainly in automobile sector failed to inject new blood in economy of Pakistan as it is agro based country and requires help in introducing scientific methods of cultivation aimed at increasing agricultural production which will ultimately contribute in boosting export.

Pakistan should improve standard of quality of the items being exported to Japan as after enactment of World Trade Organization (WTO) the market of Japan is opened to all. Moreover, improvement in quality will bridge the gap of trade between the two countries as presently balance of trade is in favor of Japan. Further, Pakistan should search market for importing non traditional items to Japan as it will earn foreign exchange on one hand and decrease deficit of balance of trade.

## References

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<sup>3</sup> *Pakistan Year Book*, National Publishing House Limited, Karachi, 1967, p.289

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<sup>5</sup> Ibid.

<sup>6</sup> Talat Afza, Op.cit., p.16

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<sup>9</sup> Ibid.

<sup>10</sup> *Pakistan Year Book*, East & West Publishing Company, Karachi, 1974, p.388

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<sup>12</sup> Ibid.

<sup>13</sup> Inayatullah, "Pakistan – Japan Connection", *The News*, May 7, 2002.

<sup>14</sup> *Economic Survey of Pakistan, 1992-93*, Finance Division, Government of Pakistan, p.93

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