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PAKISTAN, JAPAN AND ASEAN TRADE RELATIONS AND ECONOMIC DEVELOPMENT (A Comparative Analysis)

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Abstract. The purpose of the paper is to review and analyze trade policies and linkages between Pakistan, Japan and ASEAN trade. Pakistan and Japan started with similar hardships. Japanese economy was torn out by the World War. Pakistan got independence and faced a very poor economy, particularly, having negligible industrial base. Pakistan did have raw material and good agricultural resources. Pakistan neglected human resource development and kept on changing economic policies without achieving their goals. As a result, Pakistan remained underdeveloped. However, Japan converted the militarily trained nation to a very successful industrial labour and entrepreneurs. The cooperation between bureaucracy, banks and businessmen (The INK) converted the economy of Japan, which dominates the world trade. Pakistan's trade account was always in deficit with Japan. However, Japan continued to provide aid to meet this deficit. It helped to strengthen Pakistan-Japan trade and economic relations. Over time, Pakistan's trade with ASEAN increased while it did not flourish much, at a rapid rate, with Japan. Japanese investment in Pakistan remained limited and, therefore, its economic relations are weakening with Pakistan. China and ASEAN are gaining trade shares in Pakistan. Japan needs to change its investment and trade policies to strengthen its economic relations with Pakistan. Japan may increase investment beyond just financing trade deficit. Its investors are still shy to invest in Pakistan, although, it has lion's share in autos market in Pakistan. There are ample opportunities for Japan to invest in Pakistan. Japan can invest in the areas of agriculture, electronics, textile and industries pertaining to food processing and energy etc. Japanese surplus capital and management may explore cheap labour, raw material and energy in Pakistan. It can manufacture cheaply in Pakistan and export to other countries. It will be difficult for Japan to increase trade with Pakistan, once other countries gained market share.

I. BACKGROUND AND LINKAGES

Pakistan and Japan have shared common interests through trade and commerce for the last four decades. After the World War II, Japanese

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economy was restructured and all the attention was directed to revive the economy. One of the many common factors between the two countries namely, Pakistan and Japan, is their struggle for economic revival. Pakistan took birth on the map of the world in 1947, having almost no industry, poor agriculture and economy. On the other hand, Japanese economy was completely shattered in war. Both of the nations were facing the same kinds of disastrous economic conditions. Perhaps, Japan was facing more acute economic situation than Pakistan. But Japan had already entered into the modern growth with high literacy and skills. The Japanese economy suffered from heavy physical damages, caused by the destruction of the world war. The problem of changing the basic structure of the economy towards outward looking policies and establishment of new political system were serious challenges. The religious faith in emperor and moral were shattered. The nation turned away from religious believes. These vacuums were to be filled in.

Material goals became the main destiny of Japan. Japanese Emperor was removed from all his executive powers, which had to shift to an elected political government. The economy of Japan was in a complete chaos; Japanese firms' output was not even enough to meet domestic demand for even basic necessities. The industries were engaged in producing war weapons and manpower was trained for the war. To convert the military manpower into skilled industrial labour force was met successfully (Ryoshin, 1986). This force was retrained to new skills to employ them in industries. Besides, such background of the labour force and effects of war contributed to commit the nation to work hard; rather it turned them to become workaholic.

Compared to Japan, manpower planning was never a part of the development plans of Pakistan (Chaudhary and Hamid, 1999). Plans for manpower were not even a part of development plans up to the sixth plan. As a result, Pakistan emerged one of the most illiterate countries, having over 60% illiteracy. However, Japan was in advantage having developed human resources and good industrial base. In Japan, the signals of modern growth started to appear before 1890. It had achieved 99% literacy by 1920. The developed manpower, well-organized and disciplined society, proper planning and hard work helped them to quick entry in the modern economic growth (Ryoshin, 1986). Meiji period (1868-1912) had put the foundation for take off, although the fruits of such development were not started to trickle down. Moreover, special importance was given to moral values, small industrial development and training of human resources. However, Pakistan does not have these foundations even today. Its 25%

children still find no school to go. Besides, human resource development was neglected, which resulted in mass illiteracy and unemployment. The Sectors' priorities keep on changing without achieving their goals (Chaudhary, 1999*a*). The result is that the agriculture sector is unable to feed the population, even today, although agriculture is one of the largest sectors and backbone of the economy (Chaudhary, 1989). Industrial base is still week and it is far from take off stage. Its problems keep on multiplying (Chaudhary and Abe, 1999). But with similar problems, the Japanese economy, at present, has emerged the strongest economic power of the world. Today it is the second largest economy of the world, having a large trade surplus. On the other hand, Pakistan followed dependent growth policies and ended up with piling up large unsustainable national debt, which amounts to over 90% of its GDP.[1] The debt servicing is washing away its all economic growth.[2] These problems have led to keep it under-developed. Given this background, the paper is focused to analyze major economic and trade policies followed in the both countries. The major focus is to address the nature of trade relations between the two countries. To analyze the above, the paper is organized as under.

Part II provides a brief review of the major economic and trade policies, followed in Pakistan and Japan. The impacts of these policies are pointed out. Part III consists upon the analysis of Japanese investment and trade policies pertaining to Pakistan. Besides, the pattern of Pakistan's trade, in terms of market shares, is also discussed in this section. Moreover, Pakistan's balance of trade and financing of trade deficit by Japan is also a part of this section. Part IV provides brief discussion of changes in trade and emerging trade relations with ASEAN and China. Areas of mutual cooperation for further strengthening of trade relations between Pakistan and Japan are also discussed in this section. Conclusion is provided at the end.

II. ECONOMIC POLICIES, GROWTH AND IMPLICATIONS

Japan first converted its war torn out economy into productive form. Major focus was to strengthen the industrial base by training the military to industrial skilled labour. Their moral values were changed from military training to social responsibilities. Small industries were given special importance. Later on, these small enterprises emerged as big giants. All this

[1]It pertains to domestic and international debt. Foreign debt alone is over 40% of GDP.
[2]The debt servicing on domestic and international debt is over 6% of GDP.

was done on the face of the lack of raw material. The industrial development was based upon imported inputs and trade led growth policies were followed. Japan developed its industrial sector by the innovative technology, which was also imported from abroad. The imported technology was converted to fit the local environment. The industries were set up which absorbed the labour. Over time, with the structural change, appropriate policies were successfully introduced to convert these industries to capital-intensive techniques of production. Japan did excellent in innovating the imported technology and took advantage of good relations with advanced countries. The collaboration of three giants played a major role in its accelerated and sustained economic growth, *i.e.* bureaucrats, businessmen and banks. Today Japan is leading in automation and other advanced technologies. Trade became the engine of growth for Japanese economy. However, for further growth it has to lead in inventions, rather keep on depending on innovations.

Pakistan followed different economic and trade policies than that of Japan. Economic policies followed in Pakistan were not consistent. Pakistan was unable to match the success of the Japanese, in the last fifty years. Pakistan followed a policy to encourage large industries and end up with developing neither small industries nor the large industries. Pakistan, in spite of having several domestic inputs, continued to export raw material and traditional furnished goods to Japan and other countries. It was also unable to mobilize domestic resources and savings. Thus it end up with borrowing and dependent growth became its fate. Besides, it neither followed trade led growth nor focused on value added production.

Japan emerged as a high saving nation, surplus of capital and having innovated competitive technology. On the other hand, Pakistan is considered consumption-oriented society and it keeps on importing finished goods and machinery from Japan. Besides, in spite of being agriculture country, it still imports basic food items like edible oil, dry milk and lentils etc. (Chaudhary, 1999*a*). Japan invested over 30% of its national resources, which accelerated its economic growth to the tune of over 10% per annum. Demand for its products was not limited to domestic market either. Neither the public nor the private investment in Pakistan could match Japanese level of investment and savings. Pakistan's national savings remained around 15% of its GDP, *i.e.* half that of Japan. Japan emerged as over $ 200 billion trade surplus economy, while Pakistan emerged as a debtor country of over $ 35 billion and having trade deficit, on average, up to over $ 2.5 billion every year. Today, Pakistan is suffering from heavy deficits in trade. It is lacking in resources to fill the saving and investment gap too. Its budget deficit was as high as over 8% of GDP in 1992-93. Japan played a major role in fulfilling its trade deficit (Chaudhary and Shahid, 1996).

Pakistan signed a treaty with Japan in 1960, covering social, cultural, commercial, and technical cooperation. It helped both the nations to open the doors for investment and trade. Pakistan-Japan trade is mainly based on two principles. One, they trade on competitive cost basis. Second, Pakistan gets the goods from Japan cheaper than others, due to being in the same region and due to low transport cost. These relations helped to have an access to goods, which they did not produce in their own countries. Japan mainly got raw material and Pakistan got finished goods.

III. NATURE OF JAPANESE INVESTMENT AND TRADE RELATIONS

Currently, under equity participation, several joint ventures are in operation. Mutual trade between Pakistan and Japan has been the greatest source of attracting Japanese investment. Most of these investments have not been made in the infrastructure and welfare oriented projects. It is mainly meant to finance trade deficit. Besides, agriculture, autos and irrigation projects are the most important areas where Japan has invested the most. Meager resources have been provided for health, education and social welfare. During 1992, Japan has invested over $ 163 million. The direct investment during 1994-95 was around $ 112 million. Such investment is one of the many reasons for strengthening mutual trade. The trade balance has always been in favour of Japan. For the fiscal year 1996-97, the Japanese government provided loans worth $ 405 million. Trade has always been at the back of all these loans. Most of these loans were equal to the trade deficit. However, still the Japan is one of Pakistan’s important growing trade partners.

Over time, Japan has increased investment and aid to Pakistan. A loan of $ 77 million was provided in 1982-83. It increased to $ 303 million in 1986-87 (Table 1). Thereafter, Japan has significantly increased its investment in Pakistan. During the 1990s, Japan was providing over a half billion dollars loan every year. During 1995-96, the same was $ 538 million.

Table 1 provides a linkage between Pakistan’s trade imbalance with Japan and Japan’s pattern of credit to Pakistan. Up to 1988-89, Pakistan was getting foreign loans from other sources. When USA decreased its aid to Pakistan, it started to borrow more from Japan. During the 1990s, Japanese loans, every year, were close to Pakistan’s trade deficit, with

Japan. During the 1992-93, Pakistan's trade deficit was about $ 731 million and Japan provided loans for about $ 781 million. A similar trend was almost apparent thereafter. During the 1997-98, trade deficit with Japan was $ 549 million, however, the loans provided was around $ 405 million. It appears that Japan continued to provide loans to fill trade deficit. Such financing helped Pakistan to maintain its trade with Japan. The loans provided by Japan were soft loans, as compared to other countries and institutions. Since 1988, Japan was lending to Pakistan at rate of less than 3%, interest rate. Interest on IBRD loans was over 7%. Other loans from donors also carry even higher interest rate.

TABLE 1

Trade Deficit and Loans from Japan
($ Million)

Years	*Loan*	*Trade Deficit*
1982-83	77	497
1986-87	7	481
1989-90	303	438
1990-91	300	479
1992-93	731	781
1995-96	538	689
1996-97	389	549
1997-98	250	388

Source: *Economic Survey*, 1997-98 and 1998-99.

SUZUKI, TOYOTA AND HONDA MOTORS

Japanese firms directly invested in the production in Pakistan. Suzuki of Japan is engaged in producing motorcycles and cars in Pakistan. The motorcycles produced by the Japanese firms have captured over 36% share in the market. These companies manufactured and assembled vehicles in Pakistan. It is producing over 3,000 units every year. The Suzuki plant has the capacity to export them too, in addition to meeting the domestic market. Besides, Yamaha, Honda and Vespa motorcycles are also widely sold in Pakistan. Japan enjoys a major share in the auto market.

The Pakistan Suzuki has joint venture with Pakistan Automobile Corporation. It started in 1983, and it has gained substantial share in the market. Suzuki and Toyota cars are the popular vehicles in Pakistan, because it meets the local demand efficiently. Its production capacity is over 7,000 units. It has also developed vendor industries, which are facilitating its production. The company plans to export cars but its management is not very well linked with foreign market. Besides, more favourable local environment is needed to do so.

The Toyota motors are also a joint venture, with Al-Futtain and Pakistan Autos. The company manufactures buses and trucks. It has gained over 50% share in the market. The company has also successfully exported buses to Dubai. However, such quantum is limited. The company exported on a price higher than neighbouring competitor, India, due to its better quality.

The Honda motors is also assembling cars and motorcycles in Pakistan. It enjoys the status of popular company for cars and motorcycles. Besides, Japanese firms also provide help in assembling tractors and other machinery in Pakistan. All above shows strong emerging economic relations between Pakistan and Japan.

In addition to Japanese firms, several other multinational are also entered into joint ventures with Pakistani firms and they are producing several different products. Phillips electrical is producing TVs and electronic goods. Reckitt and Colman is engaged in the production of medicines. Pak Saudi and Dawood Hercules are engaged in the production of fertilizers and pesticides. Besides, Siemens is engaged in several projects related to electrical and other goods.

ODA’S INVESTMENT

Japan is not only a major trading partner but it is also one of the top donors to Pakistan. It helped the Pakistan economy when USA pulled out its Aid offices from Pakistan. ODA has emerged the largest donor to Pakistan. Pakistan is indebted to the tune of 35 billion dollars, out of which, 20% were provided by the ODA. Presently, it is providing over half a billion dollars every year. Japan always provided loans for development projects. The most important loans are for transport, agriculture, irrigation and energy. Recently, it has also provided funs for Social Action Programme, which is aimed to provide social amenities to the peoples and therefore to improve the living standard of human.

INVESTMENT PROSPECTS

As explained above, Japan has increased its investment and aid to Pakistan. But it appears that trade and aid relations were limited and attached to each other. Loans were provided to finance the trade deficits. Besides, investment was also mainly made in the areas for which Pakistan was importer from Japan. Investment in the areas like building, infrastructure and population welfare was limited. For reaping substantial benefits, Japan may increase its investment in the non-traditional areas too. Such cooperation will help to win more market share and diversify the benefits. Pakistan has opened up almost all areas for international investment. There is a wide scope to investment in the production of machinery, electronics, fertilizer, pesticides, chemicals, agriculture and agriculture related industries which are processing fruits and vegetables. Japan can invest in agriculture by buying the ownership rights and secure stable supply of food and other produces for Japan. Pakistan always has a very friendly attitude towards Japan. Both the cultures have many common values too.[3] Such relations can bring them closer. Both countries can further expand their trade and economic relations through joint ventures. It can be made possible if both governments cooperate and encourage such developments. In the beginning, the private sector will not enter into new areas, since they have limited information. Thus, with the help of the public sector, both the countries can expand their economic relations and mutual benefits, since an ample scope exists for such improvements.

TRANSFER OF TECHNOLOGY

In this highly competitive world technology can play a significant role to accelerate economic growth. Japan has been willing to transfer limited technology and more of manufactured goods to Pakistan. However, in contrast to other nations, like USA, which was always reluctant to transfer technology to Pakistan. As already mentioned that Japanese firms like Kaure established plants, which produce TVs and other electronic goods in Pakistan. The Japanese firms have captured almost entire auto market in Pakistan. It has significant share in electronics goods market too.

IV. ECONOMIC GROWTH AND TRADE

Pakistan's foreign sector grew faster than its overall economic growth. In the 1960s such a growth rate was double than that of its economic growth. It experienced double digit increase in its exports. However, Pakistan's trade was unstable and it experienced wide fluctuations. Over time, to some extent, it was able to diversify its exports from primary and raw material to finished goods. But it was not able to diversify and add high value added goods. The share in exports, of manufactured goods, increased and it

[3]Both the countries share common values like family traditions and respect for elders etc.

decreased for the primary goods. However, expansion and diversification in exports was not widespread and it suffered from instability (Chaudhary, 1999).

PAKISTAN'S COMPOSITION OF EXPORTS

Pakistan's exports are, directly or indirectly, dependent upon agriculture. A good harvest not only improves economic growth but it also increases exports. Textile and clothing related goods continue to have a large share in exports. Besides, rice, garments, fish, leather products and sports goods also contributed to earn additional foreign exchange. However, earnings from these goods were limited. During 1994, the share of textile related exports was around 60%, which decreased to 53% in 1996-97. The share of readymade garments was 17%, in the same year. Rice is another major export but its share also decreased over time. Its share was 18% in 1980, which decreased to 6% in 1996-97. However, it still remained the second largest agricultural export. The share of sports goods increased from 1% in 1980 to 2.9% in 1994. The share of fish and fish preparation was 2.3% in 1980, which almost remained constant over time. However, it decreased to 1.8% in 1996-97. The share of leather and leather products was around 3%, in 1996-97. During 1996-97, the shares of leather products, carpets and rugs, surgical instruments, foot wear and synthetic textile were 3%, 3%, 1.5%, 3% and 3.2%, respectively. Moreover, Pakistan was also exporting wool and wool made ups, cotton, petroleum and petroleum products, guar, fruits and vegetables, metals, electronics and non-electrical goods. The share of these exports is not very large but, overall, these exports contributed to add additional foreign exchange earnings. Besides, these products helped to some extend to diversity exports.

The above figures indicated that Pakistan has made a shift from primary exports to manufactured goods but this change remained limited to traditional exports. It was not able to diversify them. Agricultural exports did not expand much, although, it is the one of the largest sectors of the economy. Pakistan even end up importing agricultural food items in which it was self-sufficient like wheat, lentils and dry milk etc. Besides, the share of traditional exports also went down. Pakistan was not very successful in introducing new value added industrial and agricultural exports. It continued to increase exports of limited commodities to Japan and other countries. It is not able to introduce value added goods like electronics, machinery and modern equipments.

Over time, Pakistan's trade relations improved both with Japan and ASEAN. In Asia, Japan is one of the major trading partners of Pakistan. It has gained an important position. It was not so up to 1970. With the rapid growth in ASEAN, Pakistan's trade with them improved. But Japan remained the major trading and donor partner of Pakistan. Japan has given relatively equitable treatment for Pakistan's exports. About 40% exports of Pakistan enjoy generalized system of preference (GSP). These treatments helped to maintain steady trade relations. As already stated that there was a shift in trade, from Japan made goods to cheap goods produced in ASEAN. Besides, major reason for expanding trade with ASEAN was the increasing demand for edible oil and rubber. Malaysia is a major exporter of these goods. Pakistan has tried to substitute these imports but it was not very successful. In contrast, Pakistan has relied upon Japan for its major imports like machinery and transport vehicles. Other imports include electronics, synthetic fiber and silk related goods, chemicals, and dairy products etc. During 1990, Pakistan imported over 230 million dollars worth of machinery from Japan. It is on increasing trend thereafter. Its relative share in exports is given below (in Table 2). Japan has major share in machinery, chemicals, silk/yarn and synthetic fiber.

TABLE 2

Major Trading Partners and Percentage Shares in Pakistan's Imports (1995-96)

Country	*Japan*	*USA*	*Germany*	*China*	*UK*	*S. Korea*
Total	11	9	6	5	4.4	3
Transport Equipts.	71	8	2	1.5	3.6	2.5
Other (Machinery)	19	8	7	8	9	3
Chemical	9	7	10	9	8	9
Silk/Yarn	29	5	9	0	0.5	9
Med. Instruments	3	8	13	0	12	2
Synth. Fiber	13	8	4	0.3	8	0
Others	6	17	9	4	3	2

Source: *Trade Statistics of Pakistan* (1995-96), Ministry of Commerce, different issues.

PAKISTAN'S IMPORTS AND MAJOR TRADING PARTNERS

Pakistan's major imports are transport machinery, tea, edible oil, petroleum, iron and steel, synthetic fiber goods, silk, electronics and textiles etc. Over 70% imports of Pakistan were based upon transport machinery and vehicles, edible oil and petroleum. Japan started to produce autos in Pakistan. The share of machinery and related goods decreased over time. However, Japan still enjoys about 56% share in the market. In terms of value, it is the largest import from Japan. Non-electrical machinery is another major import of Pakistan, from Japan. Its share was 29%, in 1995-96, which decreased to 16% in 1996-97. Its major competitors are EU, North America, Korea and China. Presently, in electrical goods, Japan has about 10% share. It is not on much increasing trend. ASEAN are also gaining market share in Pakistan. Chemicals were other major imports of Pakistan. Table 2 provides relative share of Japan in Pakistan's imports. Japan has one of the highest market share in it (9%). Other competitors, for the same, are Germany, USA, China, UK and S. Korea. Their market shares were 10%, 7%, 9%, 8%, 9%, respectively. In synthetic fiber, Japan enjoys one of the highest shares. It has 13% of the market share. Its major competitors were USA, UK and Germany. Over time, China is emerging a major exporter to Pakistan who meets the local demand better than Japan. It is due to its exports consisting upon different quality for different segments

TABLE 3

Major Exports and Imports of Pakistan
(From Japan) 1996-97 ($ Million)

Exports Items	*Value*	*Imports Items*	*Value*
Raw Cotton	28.1* (5.6)	Machinery	4.34 (16)
Cotton Yarn	366 (24)*	Transport Equipment	323 (56)
Cotton Fabric	56 (4.4)	Chemicals	131.2(7)*
Leather, Tanned	16.4 (16.4)	Total Share	1027 (9)
Carpets and Rugs	26(11)		
Fish and Fish Prep.	26 (17.4)		
Surgical Instruments	4 (3.2)		
Total Share	(6)		

( ) = Percentage share in total exports

* = for 1995-96

The details of imports and exports for 1996-97 are given in Appendix.

of the society. Besides, China is placing special importance to Pakistan in terms of improving social, cultural, economic and political relations. On the other hand, Japan's policies are restricted towards Pakistan, as compared to China. If Japan did not change its policies, it will be loosing the market. China is following progressive market policies. On the other hand, Japan always want to backup USA, and as a result, its economic relations will be affected. USA has no more much economic and political interests in Pakistan. However, china and Pakistan are both willing to have strong economic and social relations. Such relations will pay to both the countries. Pakistan could be a large growing market in future. Thus, trade relations must be supported beyond financing deficits. By doing so it can enlarge its market share, which is on declining trend now. The Japan's share in Pakistan's exports and imports are given in Table 3.

PAKISTAN'S EXPORTS AND MAJOR TRADING PARTNERS

Pakistan's major exports are not limited to Asia but these exports reach to Europe, USA, Africa and other countries. Japan has also a significant share in it. Many goods can be exported to Japan, which is restricted because of tariff and other barriers, particularly, agricultural goods. Pakistan can export several agricultural produces which are restricted by strict laws related to sanitary and phyto sanitary. An expert from Japan appreciated the mangoes and other fruits produced in Pakistan and missed them after return to Japan. It was difficult to export those goods to Japan due to strict rules while the same products, having the same standards are widely exported to Europe and Middle East. Japan is growing rich but unable to maximize consumption. Japan prefers to export more and more but restricts its citizen to get cheaper goods from abroad. Its consumers continued to pay higher prices of several items, due to trade barriers. The loss of consumer surplus is well recognized. The high price of rice, vegetables, fruits and other food items are good examples of it. The top quality rice from Pakistan can be imported at a price 50% less than what Japanese pay for in the local market. The same difference is many times higher for several other products like vegetables, fruits and meat etc. (Chaudhary, 1999*b*).

During 1973-74, Pakistan exported Rs. 630 million worth of goods to Japan. Its imports from Japan were Rs. 1126 million. Cotton was a major export to Japan. A Japanese expert from Japan's External Trade Organization (JETRO) indicated that Pakistan needs to shift its cotton production to long content cotton, which has more demand in Japan. Failure to do so has led Pakistan to not reap all the benefits. Over time, Pakistan and Japan's trade expanded, however, it has not grown in terms of relative shares.

During 1995-96, Japan had about 7% market share in Pakistan's exports (Table 4). Japan is one of the major importers of cotton yarn and fabrics. In terms of value, cotton yearn was the largest export to Japan. During 1995-96, its share was 27%, out of which 4% was cotton fabrics. The share of raw cotton was 5% (Table 4). Its other major importers are Hong Kong, S. Korea and USA. Japan also significantly imported fish and fish preparations. Its share was over 16%, which also decreased over time. Moreover, carpets and rugs are exported to Japan but their shares and earnings were not very large. Its exports also did not grow over time. Major export of the same goes to USA, UK and Germany. Their shares for the same are 30%, 5% and 16%, respectively. Besides, Japan also imported surgical instruments, cotton made ups, towels, sports goods and fabrics. However, the share of these items is not very large.

TABLE 4

Destinations of Pakistan's Major Exports (1995-96)
(Percentage Shares by Country)

Country/Exports	*Japan*	*USA*	*Germany*	*China*	*UK*	*S. Korea*
Raw Cotton	5	2	0	12	–	–
Cotton Yarn	24	2	0	29	0	10
Cotton Fabric	4	10	3	17	6	4
Leather and Leather Goods	6.1	18	34	13	18	9
Carpets/Rugs	11	30	16	0	5	0
Fish/Prep.	16	12	2	5	15	0
Sports Goods	2	20	17	0	9	0
Surgical	4	44	14	0	0	0
Total	7	15.5	9	–	6	3

Source: *The State of Pakistan's Foreign Trade*, Ministry of Commerce, Government of Pakistan.

Pakistan's exports to Japan are almost those which Pakistan is also exporting to other developed countries. As stated above, Japan's share in Pakistan's exports has not increased much. Neither Pakistan nor Japan has made many efforts on this front. Mutual cooperation can provide many additional cheap goods to Japan, on a very low price.

PAKISTAN-JAPAN TRADE AND BALANCE OF PAYMENTS

There was rapid growth of trade between Pakistan and Japan. Pakistan's imports were almost double than that of its exports. Pakistan imported goods from Japan for about Rs. 1126 million against the exports of Rs. 630 million, in 1973-74. Thus, total trade with Japan was Rs. 1,756 million.

During 1996-97, it increased to Rs. 37,349 million, which is an increase of over 88% per year (Economic Survey, 1997-98). During 1996-97, the exports were Rs. 12,187 million and the imports were Rs. 25,349 million, which constitutes to total trade of Rs. 37,536 million. It was a period of depression in Pakistan, which also affected its trade. The average per year increase in exports was 80%. However, the imports grew by 95% per year during this period. This big increase is also due to a significant devaluation of Pakistan's currency. Other than trade deficit, devaluation also affected its balance of payments. However, these growth rates are lower in terms of dollar value. Tables 1 and 5 provide the balance of payments position in dollars. The trade position of Pakistan for 1996-97 is provided in Appendix.

TABLE 5

Pakistan and Japan's Balance of Trade
($ Million)

Years	*Exports*	*Imports*	*Balance*
1983-84	222	719	–497
1985-86	294	837	–543
1989-90	460	896	–438
1992-93	466	1580	–1114
1993-94	456	1325	–789
1996-97	478	1027	–549
1997-98	325	713	–388

Ministry of Commerce, Government of Pakistan.

Table 5 indicates that Pakistan has always been suffering from trade deficit with Japan. However, the deficit has not grown much over time. The trade deficit was $ 497 million in 1983-84, which slightly increased in 1985-86 and again decreased in 1989-90, to $ 438 million. In 1996-97, Pakistan's trade deficit was about one-half billion dollars. The growth of the same was less than one percentage per year. Pakistan's exports did not grow much over time but imports continued to increase. In terms of dollars, the imports grew from $ 719 million to $ 1027 millions, between 1983-84 to 1996-97. This growth was over 3% per year. Pakistan's exports doubled between 1989-90 to 1997-98. However, there is almost negligible growth for the same thereafter. The trade deficit slightly decreased during 1984-85 and 1990-91. During the 1980s, Japan made a significant investment to replace the heavy autos export and instead started to produce the same in Pakistan. Such a policy was very successful for capturing the market. It is the very reason that the imports from Japan were lower thereafter. In fact, the economic relations, between Pakistan and Japan, improved significantly. During the early 1990s, USA pulled out its supporting offices from Pakistan. As a result, the economic relation with USA started to weaken. Pakistan also altered its trade and placed more importance to Japan and other countries. The trade imbalance with Japan increased during this period. During 1992-93, Pakistan's trade deficit with Japan was ever high, *i.e.* $ 1114 millions, double than the other years.[4] It was also high due to bad year for the Pakistan economy. Pakistan had to import additional items due to shortages, resulted by bad season and floods damages etc. Over time, Pakistan's imports increased for the items like chemicals, tires and tubes, non-electrical machinery, rubber, food preparations, vegetable fiber, fertilizers, yarn and thread, Railway vehicles and dairy products etc. Japan continued to be the major exporter of machinery and other finished goods to Pakistan. Besides, Japanese aid and investment increased as did the deficit, for Pakistan. The balance of trade position of Pakistan is given in Table 5.

V. PAKISTAN ASEAN TRADE RELATIONS

ASEAN growth was mainly due to international flow of capital and friendly market environment. Their governments have also introduced market-oriented policies, which attracted the international capital. However, most of this investment was portfolio investment. When the international investors felt that their capital is not very safe, they withdrew their capital and it led to crises in ASEAN. ASEAN market reforms were so rapid that market was not able to absorb them. Besides, the governments of ASEAN did not take enough safeguards to protect themselves from sudden outflow of international capital. International institutions were also not prepared to handle such crises. Thus, ASEAN market collapsed. These crises did not have very significant impact on Pakistan. Pakistan does not have very strong economic relations with ASEAN. But its trade with ASEAN has slightly grown over time, mainly with Malaysia. ASEAN products are

[4] It may be noted that it is 25% of Pakistan total earnings from exports. Besides, it constituted 30% of the overall deficit.

cheaper than Japan's. Pakistan shifted its some imports from other countries to ASEAN. Pakistan adjusted to the new changes in ASEAN. Much of Pakistan's exports do not depend on ASEAN. However, Pakistan was importing electronics, edible oil, and rubber products and related goods from ASEAN. Other countries, like China and Korea, can easily replace these products. A similar adjustment was made for exports too. The traditional imports like edible oil and rubber etc., continued to be imported mainly from Malaysia. The limited economic relations with other ASEAN countries continued, even in the crises.

PAKISTAN ASEAN TRADE AND TRADE SHARE

Pakistan's imports from ASEAN were only 5% of its total imports. In 1980, it increased to 7.6% in 1990 and further to 9.5% in 1994. The same share was 9% in 1996-97. It is on decreasing trend now, since ASEAN crises. Pakistan exported only 2.4% of its exports to ASEAN in 1980. It increased to 5% in 1990-91. Overall, exports and imports share was 6.3% in 1996-97. It has further gone down thereafter. Pakistan's major trading partner is Malaysia. Pakistan is mainly importing edible oil and rubber products from Malaysia. Besides, electronics were also imported. However, their share is not very large. In 1990, Malaysia alone constituted 45% share in the total imports of Pakistan. The same increased to 52% in 1996-97. Malaysia has almost 7% share in Pakistan's total import, almost equal to Japan. Presently, it has 56% share in the total Pakistan's imports from ASEAN. It indicates that Pakistan's imports from ASEAN, excluding Malaysia, were only 2%. Among ASEAN, Malaysia is the main trading partner of Pakistan. However, even its exports are also limited.

INDIRECT TRADE IMPACTS AND BENEFITS (Linkages with ASEAN and SAARC)

Pakistan and Japan trade is beneficial due to being in the same region. Over time, Pakistan has tried to strengthen its trade relations with Japan. Both the countries are in the region, which is strategically quite close and have common values. Japan exists at the top of ever flourishing East Asian region and it has been the heart and soul of the Association of the East Asian countries. But still interested to find markets in other Asian countries. The Japanese economy through its trade with the South Asian countries has assumed a very important place in the region. It has proved beneficial for the existence of Pakistan Japan trade.

Pakistan's trade with Japan has opened the gate for Pakistani goods and services aimed at the ASEAN countries (Association of South East Asian

Countries). ASEAN's trade with Pakistan has improved. Over time, a shift in trade relations took place in terms of goods imported from Japan. The goods which were imported from Japan are now imported from ASEAN and China. Japanese goods still continued to reach Pakistan through ASEAN, which were not substituted by ASEAN, *i.e.* industrial machinery etc. These goods are produced cheaper in ASEAN, although in lower quality, were replaced for imports from Japan. The shift in trade took place mainly in two areas. Most of electronics and related goods are now imported from ASEAN. Such goods still may be made by Japanese firms but located in ASEAN. Besides, Japan's investment in Pakistan also replaced the imports from Japan. It was a result of a very smart and successful trade and investment policies of Japan. By producing the goods locally, it captured wider market in Pakistan. If Japan has not done so, it may not have been able to capture the autos and other goods market to such a large extend. It also blocked the market for other countries. Presently, it is hard for any other auto firm to enter in the Pakistan's market. Recently, Korean firms try to introduce their autos but they failed to do so. These mutual beneficial policies helped both the countries to strengthen trade relations. The production can be further expanded by exporting the autos and electronics, made in Pakistan, to other countries. It is feasible due to cheap labour, energy, other inputs and easy investment related rules and regulations for such production. International firms can even enjoy several concessions for export led investments. Such treatment provides special opportunity for foreign firms to enter into joint ventures.

The mutual trade relations between Pakistan and Japan also helped Japan to enter into SAARC (South Asian Association for Regional Cooperation) market. The Japanese goods reached to India and other South Asian countries through Pakistan. India had a very close trade policy. Such relations between Pakistan and Japan helped Japan to send goods to South Asia, particularly, to India. It was not possible otherwise. Recently, these relations are also helping Japan to establish economic ties with the Central Asian states. Pakistan also entered into the Japanese capital market. It provided more benefits and less risk. Entry in the Japan's capital market provided an opportunity to Pakistani investors to establish relations with Japanese's firms. It also helped Pakistan to trade world wide through Japan's market.

Pakistan's trade has grown much with China. China is not only replacing Japan but it is also a good substitute for ASEAN. Pakistan has good economic, political and social relations with China. The rapid growth of China and its growing trade with others indicates that if Japan and

ASEAN do not come up with special programme for enhancing economic relations with Pakistan. China will replace them both. ASEAN will take time to revive. However, Japan needs to concentrate to improve the economic relations with Pakistan. Pakistan has the potential for a large market in the future. It is one of the fast growing countries in South Asia, having the largest economy after India. Early establishment of strong relations will help Japan to have longer benefits.

Japan can act as substitute to China and ASEAN. Japan needs to adopt a policy to invest in Pakistan and produce the products in Pakistan. It can lead to hinder the other country's entry in the market. Japan cannot continue to capture this market by exporting from Japan. Goods made in Japan are far expensive than those can be produced in Pakistan or in ASEAN and China. Besides, high value of Yen and higher costs, its products are being replaced by China and other new growing countries. Japan will be facing major competition with China's products, in the international market. Japan can even produce in Pakistan and export the same products to other markets, at very competitive rates. It can benefit from cheap labour, raw material and energy. Such experiment was very successful in the past. Autos made in Pakistan by Japanese firms were exported to other countries. Japanese firms indicated that Pakistani labour is one of the best (Mahmood, 1996). However, the management of Japanese firms in Pakistan does not have links for exports. Such linkage has to be provided for the expansion of output and exports. The same can be successfully done for electronics and agricultural goods. For local investment, agriculture and energy are the best sectors, which have high returns. Several international firms are already producing energy in Pakistan and price for their output is guaranteed. Food processing industry is in its initial stages. Thus, it is a good time to enter in its production. Pakistan has introduced market friendly reforms. Private sector is encouraged and supported by the public policies. Japan's policy to continue with traditional exports and imports will lead to loose its share in the future. Thus, there is a need that Pakistan and Japan should set a joint commission to explore new areas and options to strengthen the economic relations for long-term partnership and benefits. New areas of mutual interests need to be identified. Pakistan can offer cheap and trained labour, low input cost and energy while Japanese technology and management may be a good joint venture to produce efficiently.

Pakistan has always faced trade difficulties with Europe and America. Their trade had been tied up with aid, economic conditions and quota restrictions. Moreover, the new rules pertaining to sanitary and phyto-sanitary under WTO, are likely to affect Pakistan's exports. In the presence of strong enemies of Pakistan in its neighbours and western world being hostile, Japan stands excellent chances to capture Pakistan's market and Pakistan can also benefit from Japan by further expanding economic relations. The trade and investment of Japan helped to strengthen industrial base in Pakistan. It has gained more strength after the Asian crisis (1997-98). Pakistan could play a role as a new market for Japan for the industries directed to exports. Although, presently, Pakistan faces hardships having depression, but its effects will be over soon. The government has introduced new economic policies, which have started to show their impacts. Pakistan is rapidly introducing privatization, denationalization and deregulation policies. It has opened up all major areas for international investment, including agriculture and services. International investors are entering into joint ventures with Pakistani firms. Energy and transport sectors have attracted much of such investment. Pakistan is producing cheapest energy, electricity and natural gas, which could be helpful in terms of reducing cost of production. Besides, cheap surplus labour is also available. Similarly, low cost raw material for several products is also available in the local market. Japan can efficiently utilize its surplus capital and entrepreneurship by investing in Pakistan and taking advantage of cheap local inputs. Japan may cooperate by providing capital and management to produce efficiently. Such a cooperation can help the both countries to compete and benefit from such investment.

VI. CONCLUSION

The paper was focused to review the economic and trade policies in Pakistan and Japan. The impacts of these policies were to be identified in terms of comparative analysis. Besides, the role of Japanese investment in Pakistan and its trade relations with Pakistan were to be reviewed by pointing out mutual benefits and their scope for further expansion. New emerging trade relations with ASEAN and China were to be highlighted, keeping in view their impacts on Pakistan-Japan trade relations. On the basis of above cited discussion, areas for future cooperation were to be pointed out.

The review of Pakistan and Japan's economic history and trade pattern indicated that both the countries had almost similar economic conditions, at the end of World War II. Japanese economy was torn out due to world war. However, it had better human resources and signs of modern economic growth were started already to appear. Pakistan had no industrial base and it had to revive its poor economy, as well as, human resources. Japan encouraged small industries and successfully converted the military manpower to trained industrial labour force. Later on, these industries emerged as multinational corporations. It also followed trade led growth, on the face of having no domestic inputs. It imported inputs from abroad, including, from Pakistan and sold back finished and value added goods. However, Pakistan was unable to train its manpower. It also encouraged large-scale industries. Trade led growth was followed and neglected soon. The end result is that even today it is far from take off. It emerged as one of the most illiterate countries in the world, having poor human resources.

Today Japan is leading in technology and trade. It emerged the second largest economy of the world, with huge trade surplus. However, Pakistan is suffering from not only trade deficit but also from budget deficit. It ends up with pilling up huge foreign and domestic debt. In this situation Japan was always helpful to Pakistan. When USA pulled out its Aid offices from Pakistan, Japan emerged a major donor to Pakistan. It is continuously fulfilling Pakistan's trade deficit. In addition, it invested in Pakistan and captured the major market share for several products including autos and electronics. The financing strategy of Japan appears to finance the trade deficit of Pakistan, so that Pakistan can continue to import from Japan. Still the mutual trade did not flourish much.

Over time, the trade pattern is changing. ASEAN and China are replacing Japanese products. Although, ASEAN and China have not significantly captured Pakistan's market but they are moving very fast towards this. China is gaining trade share more rapidly due to having strong social and political ties with Pakistan. If this trend were to continue, China will replace Japan in terms of market share for exports.

There are several areas in which Pakistan and Japan can cooperate and strengthen economic, trade and social relations. Pakistan is interested to do so and it has very soft policy towards Japan. Pakistan has opened up almost its all areas for international investment, including agriculture and services. Pakistan has cheap labour, inputs, energy and soft investment policies. Japan has surplus capital, modern technology and good management skill. Combining the above can lead to produce competitive goods. Both the countries can benefit from such cooperation. It will not happen automatically. There is a need that public sectors, of both the countries, provide appropriate guidelines and support to strengthen such relations. An ample room exists in several areas for further cooperation including from agricultural production to food processing and electronics.

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APPENDIX

Exports and Imports of Pakistan from Japan (1996-97)
($ Million)

Imports		*Exports*	
Items	*Value*	*Items*	*Value*
Road Vehicle/Parts	318	Cotton Yarn	290.0
Machinery/Parts	409	Cotton	55.31
Railway Vehicle	1.6	Fish/Fish Prep.	25.5
Rubber Products	5.1	Rice	1.0
Synthetic Textile	13	Carpets and rugs/ Handicrafts	18.0
Clothing and Rages	2.4	Fruits/Vegetables	2.0
Iron Ore and Non-Ferrous Metals	13	Oil Seeds/Fruits	2.4
Chemicals/Compounds	80	Sports Goods	5.2
Measuring/Checking Articles	12.12	Raw Cotton/Waste	6.0
Tyres and Tubes	14	Iron Ore and Non-Ferrous Metals	2.5
Paper and Paper Boards	3.5	Towels and Made ups/ Hosiery Articles	18.0
Paint and Vanishing	2.34	Material of Animal Orig	7.1
Dying/Colouring	5.3	Crude Veg. Material	4.0
Synthetic Thread, Yarn/Fabrics	16.7	Petroleum Products	2.4
Iron and Steel	81.19	Leather and its Products Yarn/Thread	16.6
Base Metals	2.23	Synth. Fiber/Woolen Articles	5.32
Medical/Surgical Inst.	3.4	Mineral Products	2.2
Photo Equipment's Supplies	10.63	Clothing of Tex. Fabric	4.32
Others	31.9	Chemicals/Compounds	1.2
		Others	1.5
Total	1026.8	**Total**	478.4

Source: *Trade Statistics of Pakistan* (1996-97), Ministry of Commerce, Government of Pakistan.