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T. Nirmala Devi*

Abstract

The economies of BIMSTEC and Japan are highly complementary in terms of factor endowment, capabilities and specializations. This study shows that the intensified economic interaction between India and Japan benefits both the economies, besides the increasing strategic relationship. Thailand followed by Sri Lanka and Myanmar are having better economic relations with Japan and if India joins in this group by interacting carefully and wisely, there could be a comprehensive economic cooperation between BIMSTEC and Japan and it will surely benefit the economies of whole Asia in the coming years.

1. Introduction

Regional cooperation is not an end in itself but as a means of fostering economic development and in this light the latest cooperation effort in the Asia-Pacific region is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), formerly known as the Bangladesh – India – Myanmar – Sri Lanka – Thailand Economic Cooperation, initiated in 1997 as a sub-regional grouping. Currently with seven member countries sharing the common waters of Bay of Bengal, viz., Bangladesh, Bhutan, India, Nepal and Sri Lanka from the South Asian Association for Regional Cooperation (SAARC) region and Myanmar and Thailand from the region of Association of South East Asian Nations (ASEAN), BIMSTEC aims at promoting harmonious economic development in the sub-region through expansion of trade. The BIMSTEC acts as a bridge between the two regional groupings in Asia, viz., SAARC and ASEAN and received a major impetus after the signing of the framework agreement for free trade in 2004 and the entry of Bhutan and Nepal as its new members. The BIMSTEC would, in all likelihood, emerge as a strong regional grouping in Asia in the wake of slow progress in implementing SAARC Free Trade Agreement (SAFTA) and the measures of increased interaction between South Asia and Southeast Asia. The India's 'look-east policy' enunciated in the 1990s makes a good headway in promoting interrelationship with Southeast Asia and Japan. The economic engagement of India with ASEAN is reflected in its increased signing of free trade agreements with its individual member countries. The existing India-ASEAN relationship is moving towards formation of Asian Economic Community, which encompasses Japan, China and Korea. The successful regional integration arrangements like ASEAN etc., suggest that a close and intimate economic interaction with the neighbours is surely feasible, as it would pool up large-scale capital and creativity and thus provide advantages for the nations.

Japan's official development assistance (ODA) and its foreign direct investment (FDI) flows to some of the member countries reaffirm its vital role in the growth process of BIMSTEC. Though BIMSTEC possesses the necessary requirements for deeper regional cooperation in terms of geographical proximity and the strength of complementarities it still has to strive hard to attain the economic feasibility. In this regard, Japan's economic and political support for BIMSTEC is

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highly welcomed. Japan already happens to be one of the largest investors and trade partners in BIMSTEC. Integration between BIMSTEC and Japan could be seen as the result of higher trade, reduced costs of transportation in particular and other infrastructure services in general. With the help of greater cooperation by Japan, industries, which are efficient in BIMSTEC, will create a positive growth chain towards generating many new economic activities in the region. Economic integration between BIMSTEC and Japan may help exploiting this hidden potential of intra-regional cooperation for mutual benefit. However, the economic interaction between the two is to be evaluated carefully in the wake of the region's decelerating economic linkages of Japan with some of the members in the recent past, particularly with India. Viewed against the fast changing and volatile global economic relations, this paper attempts to make a contribution towards opening up of a new set of economic linkages between BIMSTEC members and Japan with an emphasis on bilateral relations between India and Japan, after taking a note of the modest opportunities of progress in economic matters at the multilateral trading system (WTO), and the benefits that are likely to be accrued for the former group of countries engaging with Japan in the coming future. This paper also aims to explore the chances of trade orientation between BIMSTEC and Japan by estimating the trade intensity indices.

The paper is arranged as follows. Section 2 talks about current profile of BIMSTEC. Section 3 presents the overall scenario of economic linkages between BIMSTEC members on one side and Japan on the other. Section 4 highlights the past and present trend of bilateral economic relations between India and Japan. Section 5 examines the trade intensity indices; both import intensity and export intensity indices, for four-year average periods of 1990-93 and 2000-03 for BIMSTEC members individually and collectively with Japan. Conclusions are drawn in Section 6.

2. BIMSTEC: An Emerging Economic Bloc

There exist several regional cooperation groupings that could develop regional mechanism for trade and investment cooperation. BIMSTEC brings the five members from the SAARC and two members from the ASEAN. BIMSTEC, in other words, links SAARC with ASEAN and through which it proposed pan-Asian economic community. Japan is very much in the forefront of most of the regionalisms in Asia. In one hand, Japan has very close links with ASEAN, with which the country is negotiating a Free Trade Agreement (FTA) and in other, it is playing a pivotal role in bringing all Asian nations together. At this juncture, BIMSTEC has high potential of success due to its sheer strategic and economic footholds (De, 2004; De and Ghosh, 2003, 2004). BIMSTEC's success is likely to come from its vast US$ 750 billion economy and 1.32 billion population resource (De, 2004). BIMSTEC economies are growing at a faster pace than that of some other predominant regional economic groupings; BIMST-EC has witnessed an average 4.65 percent growth rate in GDP and 2.89 percent in GDP per capita in 2001, even a decade back these countries had far lower rates of growth (De and Ghosh, 2004). Therefore, this type of integration would go a long way towards promoting economic growth of countries, individually and collectively. BIMSTEC has identified six sectors for cooperation, viz., trade and investment, technology, transport and communication, energy, tourism and fisheries. The First Summit in July 2004 after the expansion of membership to Nepal and Bhutan and signing of Framework Agreement on BIMSTEC FTA in February 2004, has given a new momentum for the evolution of the grouping (RIS 2004).

A number of initiatives towards intra-regional trade liberalization between individual member countries of BIMSTEC under bilateral and regional trade agreements have been undertaken in the past, viz., India-Sri Lanka FTA, India-Thailand FTA, ASEAN FTA in the case of Thailand and Myanmar, SAPTA/SAFTA and Bangkok Agreement (India, Sri Lanka, China, Bangladesh, etc.). India's Framework Agreement on Comprehensive Economic Cooperation with ASEAN at the

10+1 Summit held in October 2003, and the Mekong Ganga Cooperation in which India, Thailand and Myanmar are cooperating are all indicators of closer trade interactions (RIS 2004). The formation of FTA in BIMSTEC is desirable and economically viable in the light of the modest progress in the trade liberalization under the above agreements. A fast-track trade liberalization in the coming years under the umbrella of BIMSTEC is envisioned by some studies (RIS 2004). In BIMSTEC, the size of intra-regional trade is small at present due to several barriers in the past, yet there is enormous scope for progress because most of the trade potential is untapped so far and there are low incidences of conflicts among its members. This is true in the case of investment pattern in the region. Therefore for mutual benefit, the BIMSTEC members' increased interaction in the trade and investment patterns with Japan, an advanced country in the Asian region, is highly desirable. Nonetheless, trade and investment cooperation between BIMSTEC and Japan will certainly help overcome the economic stagnations of the South and Southeast Asia.

Table 1a: Selected Key Indicators of BIMSTEC and Japan

Region/Country	Total Population (millions)		Annual pop. growth rate (%)	Gross national income per capita ($)				GDP per capita (% growth)	
				Absolute		PPP			
	1975	2003	1975-2003	1995	2004	1995	2004	1985-95	2003-04
BIMSTEC									
Bangladesh	73.2	136.6	2.2	240	440	1380	1980	2.1	3.7
Bhutan	1.2	2.1	2.1	420	760	--	--	4.9	2.3
India	620.7	1070.8	1.9	340	620	1400	3100	3.2	5.4
Myanmar	30.1	49.5	1.8	--	--	--	--	--	--
Nepal	13.5	26.1	2.3	200	260	1170	1470	2.4	1.6
Sri Lanka	14.0	20.4	1.3	700	1010	3250	4000	2.6	4.8
Thailand	41.3	63.1	1.5	2740	2540	7540	8020	8.4	5.4
JAPAN	111.5	127.7	0.5	39640	37180	22110	30040	2.9	2.5

Sources: UNDP (2005), Human Development Report, New York: Oxford University Press. World Bank (1997 & 2006), World Development Report, New York: Oxford University Press.

3. Economic Scenario of BIMSTEC

Since the members of BIMSTEC region are obviously at different levels of economic development and an advanced country, Japan is a far headway comparable to the regional members in the overall economic scenario, a broad comparison is made with a view to examine the global impact and the change in the bilateral economic relations.

3.1. Key Economics Indicators

As seen in Table 1a, the total population of BIMSTEC region increased from about seven times in 1975 to nearly eleven times that of Japan in 2003 owing to the lowest population growth rate of the latter country. Most of the regional members managed to reduce their rapid growth rate of population in the 1990s, unlike Sri Lanka which registered a lower growth rate even in the 1980s. In BIMSTEC, Thailand possess highest per capita income, followed by Sri Lanka in both absolute and PPP terms, while the fall in per capita income from 1995 to 2004 in Thailand and Japan may be attributed to the impact of the financial crisis in 1997. Japan being the developed country has recorded 6.6 and 1.6 times higher than the sum of absolute and PPP per capita of BIMSTEC region of 6 and 5 countries in the latter year as against 8.5 and 1.5 times in the former respectively. The improvement in the GDP per capita growth from the period 1985-95 to 2003-04 is impressive in India and Sri Lanka, in contrast to the notable decline in Thailand and Bhutan and also in Nepal. On the other hand, Japan registered a lower GDP per capita growth rate, resulting from the continuous slow down of the economy. Japan's trade witnessed continuous fall from 1995 to 2002 due to slow growth of global merchandise trade coupled with domestic economic recession. In recent periods, the Japanese economy has been showing signs of recovery and it has again started functioning as per expectations due to the considerable strength of the macroeconomic fundamentals in recent years. This has been reflected in a sharp increase in its global trade.

Table 1b: Economic Activity in BIMSTEC & Japan

Region/Country	**GDP**		**Agrl. productivity (agrl. value added per agrl. worker**		**Sectoral Distribution of GDP (%)**					
	Avg. annual % growth		**2005 dollars**		**Agriculture value added**		**Industry value added**		**Services value added**	
	1990-2000	**2000-04**	**1989-91**	**2001-03**	**1995**	**2004**	**1995**	**2004**	**1995**	**2004**
BIMSTEC:										
Bangladesh	4.8	5.1	239	309	31	21	18	27	52	53
India	6.0	6.2	341	397	29	22	29	26	41	52
Nepal	4.8	2.6	196	208	42	40	22	23	36	37
Sri Lanka	5.3	3.8	696	737	23	17	25	25	52	58
Thailand	4.2	5.3	493	588	11	10	40	44	49	46
JAPAN:	1.3	1.3	19163	25339	2	1	38	30	60	68

Source: World Bank (2003 & 2006), World Development Report, New York: Oxford University Press.

Considering the economic activity of the BIMSTEC and Japan, there was a sizeable improvement in the average annual growth rate of GDP in Thailand from the period 1990-2000 to 2000-04 as evident from Table 1b, in contrast to the decline in Nepal and Sri Lanka whereas a modest growth was registered in Bangladesh and India and a stagnation in Japan in the periods under consideration. The impressive performance of the Indian economy is evident through its high growth rate. The agricultural productivity was appreciable in Sri Lanka and Thailand, besides the substantial productivity gains in Japan. In case of sectoral value addition as a percent of GDP in all the countries, the services sector dominated the other two sectors in general and Japan in particular. An exception to this trend was Nepal in which agriculture is still the priority in GDP. In the rest of countries, industry occupies the second position in the economy. The rising contribution of service sector to GDP from the former to the latter year is at the expense of the agricultural sector to a major extent and of industry sector to a lesser extent in India while in Japan, it was totally at the cost of industry. The contraction of the share of services in Thailand was totally in favour of industry, as against the general trend.

3.2. International Trade

International trade is a crucial element for industrialization and it is a known fact that economic development cannot be sustained without foreign exchange. If the proportion of trade to GDP indicates the openness of the economy, then it can be said that the trade has never become the central feature of SAARC, unlike the ASEAN. As shown in Table 2a, India's trade share in GDP is comparatively small in the BIMSTEC region, leaving aside Myanmar, owing to the size of the population and the resultant high consumption. However, it registered a significant improvement from the 1995 onwards. Thailand experienced a tremendous growth in trade, followed by Sri Lanka over 1990-2002. Even Nepal's trade share ranged between one-half and three-fifths during 1990-2002. On the other, Japan's trade share was above one-fifth throughout the period under consideration, with the exception of the year 1995. Being an industrial country, Japan's export share always exceeds its import share in GDP, thus registering a favorable trade balance. This is true in the case of Thailand also from the year 1998, indicating a sea-change in its export orientation.

Table 2a: BIMSTEC and Japan: Trade Share in GDP (in per cent)

Country	**1990**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Bangladesh:									
Exp as % of GDP	9.7	11.7	11.6	13.4	13.7	13.9	15.9	15.0	14.7
Imp as % of GDP	18.6	20.0	18.7	19.0	18.6	20.0	21.3	21.3	19.5
Trade as % of GDP	28.3	31.7	30.3	32.4	32.3	33.9	37.2	36.3	34.2
India:									
Exp as % of GDP	7.5	10.4	10.6	10.7	10.8	11.4	13.9	13.7	15.3
Imp as % of GDP	9.7	13.2	14.2	13.9	14.1	14.0	16.5	15.4	16.5
Trade as % of GDP	17.2	23.6	24.8	24.6	24.9	25.4	30.4	29.1	31.8
Myanmar:									
Exp as % of GDP	1.3	1.2	1.0	0.8	0.7	0.5	--	--	--
Imp as % of GDP	2.5	1.9	1.6	1.4	1.1	0.7	--	--	--
Trade as % of GDP	3.8	3.1	2.6	2.2	1.8	1.2	--	--	--
Nepal:									
Exp as % of GDP	12.0	24.4	26.1	26.5	23.0	25.3	24.0	20.7	--
Imp as % of GDP	23.7	38.5	39.6	39.6	31.5	34.0	33.5	31.1	--
Trade as % of GDP	35.7	62.9	65.7	66.1	54.5	59.3	57.5	51.8	--
Sri Lanka:									
Exp as % of GDP	28.5	35.4	35.0	36.5	36.2	35.5	39.1	39.2	36.1
Imp as % of GDP	36.9	45.9	43.9	43.6	42.3	43.3	49.6	45.4	42.9
Trade as % of GDP	65.4	81.3	78.9	80.1	78.5	78.8	88.7	84.6	79.0
Thailand:									
Exp as % of GDP	34.2	41.8	39.3	48.0	58.9	58.2	66.7	66.0	64.4
Imp as % of GDP	42.0	48.9	45.9	48.0	43.4	45.9	58.5	60.0	58.3
Trade as % of GDP	76.2	90.7	85.2	96.0	102.3	104.1	125.2	126.0	122.7
Japan:									
Exp as % of GDP	10.9	9.4	10.0	11.1	11.1	10.4	11.1	10.8	11.6
Imp as % of GDP	10.0	7.9	9.5	10.0	9.2	8.9	9.7	10.1	10.3
Trade as % of GDP	20.9	17.3	19.5	21.1	20.3	19.3	20.8	20.9	21.9

Source: IMF (2002 & 2004), International Financial Statistics Yearbook, Washington D.C.

It is known from the structure of trade (Table 2b) that the share of imports of goods and services in the BIMSTEC region is higher in GDP than the share of exports. However, Japan recorded a contrast picture due to its export competitiveness. Thailand too, posted a favorable picture in the latter year. In the export composition, the share of primary products was more than two-fifths in Sri Lanka, a well above one-third in Thailand and a well above one-fourth in India in the former year in BIMSTEC, in contrast to the lowest share in Japan. A significant decline in this share was recorded by Sri Lanka, and Thailand in the latter year. The shift is mostly in favor of the share of manufactured exports, which had grown from 1980s to 1990s in all the countries in general, and strikingly in Sri Lanka, Bangladesh and Thailand from 1990 to 2003. There is no visible reason for the decline in the share of manufactured exports in Japan. In Thailand and Japan, the share of high technology exports in the total of manufactured exports was a well below one-third and less than one-fourth respectively in the latter year, owing to their industrial prowess as against the lowest shares of 5 percent in India and 1 percent in Sri Lanka.

Table 2b: Structure of Trade of BIMSTEC and Japan

Region/Country	**Imports of goods and services** (% of GDP)		**Exports of goods and services** (% of GDP)		**Primary Exports** (% of merchandise exports)		**Manufactured Exports** (% of merchandise exports)		**High Technology Exports** (% of manufactured exports)	
	1990	2003	1990	2003	1990	2003	1990	2003	1990	2003
BIMSTEC:										
Bangladesh	14	20	6	14	--	10	77	89	(.)	(.)
Bhutan	32	43*	28	22*	--	--	--	--	--	--
India	9	16	7	14	28	22	71	77	2	5
Myanmar	5	--	3	--	--	--	--	--	--	--
Nepal	22	29	11	17	--	--	83	--	--	--
Sri Lanka	38	42	29	36	42	25*	54	74*	1	1*
Thailand	42	59	34	66	36	22	63	75	21	30
JAPAN:	9	10	10	12	3	3	96	93	24	24

Notes: (.) = Less than half the unit shown * = Data refer to 2002

Source: UNDP (2005), Human Development Report, New York: Oxford University Press.

The BIMSTEC region registered a negative balance in their current account imbalance in their balance of payments as expected. However, the unfavorable balance is gradually declining in most of the members, as seen from Table 2c. Thailand recorded an impressive balance from 1998 onwards while India witnessed the same in small size in 2001 and 2002 and Bangladesh in 2002. Japan’s positive balance was relatively small and this may be attributed to the continuous slow down of the economy for the past several years.

Table 2c: BIMSTEC and Japan: Current Account Balance (as % of GDP)

Region/Country	**1990**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
BIMSTEC:									
Bangladesh	-1.9	-2.2	-2.5	-0.7	-0.1	-0.8	-0.7	-1.2	1.6
India	-2.3	-1.5	-1.5	-0.7	-1.6	-0.7	-0.6	0.4	0.9
Myanmar	-1.8	-0.2	-0.2	-0.2	-0.2	-0.1	--	--	--
Nepal	-8.2	-8.4	-7.4	-8.0	-1.5	-5.1	-5.6	-6.2	--
Sri Lanka	-3.7	-5.9	-4.9	-2.6	-1.4	-3.6	-6.4	-1.7	-1.8
Thailand	-8.5	-8.1	-8.1	-2.0	12.7	10.1	7.6	5.4	5.5
JAPAN	1.5	2.1	1.4	2.2	3.0	2.6	2.5	2.1	2.8

Source: As in Table 2a

The share of BIMSTEC- Japan trade, which once registered a sizeable picture and second to the United States in general declined to a modest level in the late 1990s. Japan was the prominent export destination of BIMSTEC nations in the 1980s and early 1990s, and of late, this has been decelerated due to Japan’s increasing engagement with other East and South-east Asian nations in general and China in particular and also the inclination of SAARC or BIMSTEC countries towards the United States and the European Union. As shown in Table 2d, Japan has lost its prominence as an export market for BIMSTEC member countries with the exception of Nepal from 1990 to 2001, relative to the other destinations including the developing member countries of Asian Development Bank in most cases. The decline in the share of exports was more than one-half in Bangladesh, India and Myanmar whereas it was modest in the case of Thailand.

Table 2d: BIMSTEC: Direction of Exports (as % of total)

Country	Japan		United States		European Union		DMCs of ADB		Others	
	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001
Bangladesh	3.9	1.1	30.5	29.6	31.5	41.3	8.6	5.0	25.5	23.0
India	9.3	4.5	15.1	21.0	27.7	24.0	11.3	20.0	36.6	30.6
Myanmar	6.9	3.4	2.3	16.6	6.9	14.5	49.0	48.4	34.9	17.1
Nepal	0.8	1.8	23.4	34.8	53.3	19.6	11.6	37.2	10.9	6.5
Sri Lanka	5.4	3.9	25.9	40.8	26.3	26.7	9.1	7.6	33.4	21.0
Thailand	17.2	15.3	22.7	20.3	22.7	16.1	19.3	28.0	18.2	20.3

Source: ADB (2003), Asian Development Outlook, New York: Oxford University Press.

3.3. ODA and FDI

Table 3 shows the flow of aid, capital and debt in BIMSTEC region. ODA received in per capita terms was the highest in Bhutan, (a well above four-fifths) and also in Sri Lanka (above one-thirds), whereas it was only one-tenth and less than two-fifths in Bangladesh and Nepal respectively. A negative share was recorded by Thailand while the share was less than 1 and 3 percent in India and Myanmar respectively. If the aid is seen as a share of GDP in the latter year, Bhutan followed by Nepal received the highest in the region and the modest by Sri Lanka and Bangladesh and the lowest by India. In all the countries, a decline was noticed in terms of GDP from 1990 to 2003. Net FDI inflows found to be considerable only in Thailand and Sri Lanka in recent year while the rest of BIMSTEC countries recorded a low share. The proportion of other private flows to GDP was also lowest in the region, with the exception of India. External debt was above one-tenth in Thailand in the latter period while India and Sri Lanka also recorded a high share. A high share of debt in terms of exports of goods, services was also highest in India followed by Nepal, Thailand and Sri Lanka in the latter period whereas Bangladesh successfully managed to reduce its share from a well above one-third in the former period to a well below one-tenth share in the latter.

Table 3: Flow of Aid, Private Capital and Debt in BIMSTEC

Country	**ODA received** (net disbursements)				**Net FDI inflows**		**Other private flows**		**Total Debt Service**			
	Total (US $) million	Per capita (US $)	As % of GDP		(% of GDP)		(% of GDP)		As % of GDP		As % of Exports*	
	2003	2003	1990	2003	1990	2003	1990	2003	1990	2003	1990	2003
Bangladesh	1393.4	10.1	7.0	2.7	(.)	0.2	0.2	(.)	2.5	1.3	34.8	8.3
Bhutan	77.0	88.1	16.5	11.1	0.6	(.)	-0.9	0.0	1.8	1.0	5.3	4.7
India	942.2	0.9	0.4	0.2	0.1	0.7	0.5	1.1	2.6	3.4	29.3	18.1
Myanmar	125.8	2.6	--	--	--	--	--	--	--	--	18.3	3.8
Nepal	466.7	18.9	11.7	8.0	0.0	0.3	-0.4	(.)	1.9	1.9	15.2	10.0
Sri Lanka	671.9	35.0	9.1	3.7	0.5	1.3	0.1	(.)	4.8	3.3	14.8	7.8
Thailand	-966.3	-15.6	0.9	-0.7	2.9	1.4	2.3	-0.6	6.2	10.5	11.4	8.0

Note: *In terms of goods, services and net income from abroad
Source: As in Table 2b.

4.1. India and Japan: Growing Partnership

In view of the history of long cultural interaction between the Japan and the BIMSTEC nations and the importance of paving ground for a strong pan-Asian economic cooperation, the economic ties between the two in general, and between Japan and India in particular need to be strengthened. There is an immense scope for utilizing the untapped potential of the BIMSTEC region for Japan to strengthen each other's economic ties. India and Japan need to explore all avenues to build a profound economic and strategic alliance. One of the steps towards this direction is the India-Japan Joint Declaration in December 2001, which has been found as major ingredient for emerging India-Japan economic partnership (Dayal 2005). In the wake of recovery of Japanese economy from a long recession, India will have to engage itself with Japan in economic matters for mutual benefit. Indo-Japan relations, which were slackened after India's 1998 nuclear tests are now positive in recent years and it is visible that India and Japan share a common affinity on a number of issues including political, security related and economic relations particularly on energy requirements. Though both are energy-importing countries, the energy security should be an important component of the bilateral relationship (Raman 2005).

Table 4a: Trends in India's Top Ten Exports to Japan (in per cent)

Commodity	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Total Exports	6.97	5.99	5.42	4.97	4.58	4.04	3.45	3.54	2.68	2.50
Gems & Jewellery	33.49	23.10	17.50	20.83	26.69	21.67	25.22	22.39	20.79	25.28
Marine Products	18.79	27.88	29.45	29.55	29.16	28.65	22.79	17.24	14.16	12.86
Iron Ore	12.49	11.78	12.16	11.19	5.70	6.67	7.25	16.53	10.47	11.84
Cotton yarn fab.madeups etc.	4.29	5.31	6.78	4.79	6.18	6.10	7.34	6.27	5.83	4.26
RMG of cotton incl. accesories	4.45	3.61	3.33	3.58	3.69	4.82	4.51	2.86	3.67	3.22
Drugs,pharm. & fine chemicals	0.64	1.09	1.25	1.67	1.68	1.71	2.10	2.68	3.21	3.05
Machinery & instruments	0.56	0.74	1.48	2.61	1.51	0.02	1.92	2.90	0.65	2.98
Oil meals	1.71	2.85	1.85	2.61	2.37	1.92	0.65	0.92	3.06	2.43
Other ores & minerals	1.77	1.96	1.67	1.59	1.62	1.66	1.52	1.18	0.65	2.35
Inorg/org/agro chemicals	0.52	0.57	0.72	0.83	0.82	1.18	1.05	1.48	1.76	2.07

Source: CMIE (2002 & 2005), Foreign Trade & Balance of Payments, Mumbai.

4.1.1. India's Trade with Japan

There has been a significant decline in India's trade with Japan from the 1990s onwards. In contrast, Japanese trade with China is nearly 30 times that of Indo-Japanese trade. If Taiwan and Hong Kong are also counted as part of China, the trade turnover of Japan-China trade exceeds US$ 200 billion (Dayal 2005). The main items of Indian export to Japan constitute iron ore, sea food, textiles and jewellery while the major import items from Japan are general machinery, steel, electric goods and professional and transport equipment.

India's export to Japan has declined from nearly 7 percent in 1995-96 to 2.5 percent in 2004-05, as presented in Table 4a. The share of top ten exports of India to Japan reveals a significant decline of about 8 percentage points in case of Gems and Jewellery in 2004-05 from about one-third in 1995-96. Likewise, the share of marine products registered a deceleration of 6 percentage points from the former to the latter year while the share of iron ore and ready-made garments of cotton witnessed a marginal fall during the same years. In contrast, the share of drugs, chemicals and pharmaceuticals, machinery and instruments, oil meals, other ores and minerals and inorganic, organic and agro chemicals experienced a modest increase in this period. India's import from Japan also registered a decline of nearly 4 percentage points in 2004-05 compared to 1995-96. As seen from Table 4b, the share of India's top ten imports from Japan witnessed only a modest change – either a rise or a decline - from 1995-96 to 2004-05, with the exception of project goods that recorded a significant fall from the year 2000-01. In general, the slow down in bilateral trade may be mostly due to the political and economic reasons.

Table 4b: Trends in India's Top Ten Imports from Japan (in per cent)

Commodity	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Total Imports	6.73	5.59	5.24	5.82	5.10	3.67	4.17	2.99	3.41	2.81
Non-electrical machinery	20.01	21.50	22.29	19.86	19.69	22.06	16.78	22.86	23.28	24.72
Electronic goods	9.85	6.88	9.23	8.71	9.05	11.50	11.20	14.00	12.36	13.21
Transport equipment	10.86	13.41	10.58	6.39	15.45	8.69	16.96	0.05	10.93	8.95
Iron & Steel	8.18	9.20	8.95	7.66	6.20	6.21	5.89	7.19	7.00	8.48
Professional inst, optical goods etc.	6.72	6.16	6.51	6.41	6.93	8.77	8.72	10.65	7.77	8.04
Organic chemicals	6.56	6.48	7.11	5.04	4.74	6.13	5.50	6.46	5.79	5.81
Machine tools	1.80	5.22	3.02	2.71	3.32	3.37	1.77	1.98	4.45	3.90
Manufactures of metals	1.67	2.05	1.61	2.08	3.75	4.59	2.35	2.87	3.25	3.30
Artfcl.resins, plastic matrls. etc.	3.65	3.92	3.03	2.83	2.20	2.62	2.83	3.16	2.52	2.77
Project goods	14.71	8.82	10.08	18.97	13.06	4.16	5.73	2.82	2.27	2.69

Source: As in Table 4a.

In Japan's total exports to world, India accounted for a share of slightly above 0.5 percent throughout the 1990s and the early years of new millennium. On the import front, India constituted a share of less than 1 percent- to be specific 0.88 percent in 1990; 0.87 percent in 1995; 0.69 percent in 2000, which became reduced further to 0.57 percent in 2003 (IMF). However, the existing bilateral trade is just a small proportion of the large potential of trade between the two countries. Now efforts are being made to expand and diversify the bilateral trade, particularly in information technology products and services. However, a hurdle in the way of stepping up of the exports of IT software products and services to Japan is that Indian IT industry is geared up to meet largely to the needs of the English-knowing people/countries only. Unless the Indian IT industry develops Japanese language capacity, its export market will not expand (Raman 2005).

4.1.2. Japan's Aid and Capital to India

Japan has been one of the major donors to India, besides the other BIMSTEC countries like Bhutan, Nepal and Bangladesh. Japan has been extending ODA to India since 1958 in the form of yen loan with a view to develop economic infrastructure, especially in power and transportation; poverty reduction through agricultural and rural development; environmental protection and improvement of health and medical care facilities. India has been the largest recipient of Japan's ODA since 2003 and the third largest recipient in terms of cumulative amount of its yen loan. Though, the authorization of Japan's external assistance to India in dollar terms was initially low, it reached the peak in 1995-96 and touched the lowest in 1999-2000, and thereafter, regained again from 2000-01 onwards (Table 4c). On the other hand, the utilization of this assistance from Japan was significant after the second half of the 1990s and the peak was at US$ 1074 million in 1993-94.

Table 4c: External Assistance for India from Japan (US $ million)

	1980-81	1985-86	1990-91	1995-96	2000-01	2001-02	2002-03	2003-04
Authorization	78	196	949	1403	786	422	1010	1057
Utilization	114	66	499	841	599	883	701	733

Source: As in Table 4a.

Japan ranks fourth in FDI in India up to 2001, behind the US, Mauritius and the UK. The cumulative approval of Japanese FDI is around US $ 2.83 billion. The actual inflow of Japanese investment from 1991 to 2001 was around US $ 1077.2 million. The sectors attracting maximum of Japanese investment are transportation 28 percent; telecommunication 18 percent, fuel 13.5 percent; chemicals 12.17 percent and trading 6.9 percent respectively (Bala Komaraiah 2003). About 265 Japanese companies made actual investment between 1991 and March 2005. The approval of Japanese FDI declined substantially from 2002 to 2004.

In the past, India could not take its manufacturing products into Japanese market, despite having Japan as one of the top five investors, resulting in a miniscule share of about 1 percent in the total trade of Japan. On the other hand, Japanese companies in India are doing very well, viz., Suzuki, Toyata, Sona Koyo, Mitsubishi, Toshiba, Sony, Matsushita and others (Dayal 2005). These successes and the vast and untapped potential of India give hope for further exploration of Japanese companies to come to India. Infrastructure including power and construction, natural sciences, pharmaceuticals and chemicals and IT sectors, besides auto industry are the identified thrust sectors for Japanese business and commerce in India (Dayal 2005).

Bulk of Japanese investment in India has come in export-oriented industries and also for domestic market. Many Japanese firms were first movers as FDI investors in India. Following the spate of reforms since 1991 and the liberalization of Indian economy, Japanese companies started to invest in India and formed joint ventures with Indian companies or established wholly owned subsidiaries in various sectors, predominantly in areas like automobiles and white consumer goods. Indian FDI in Japan is concentrated mainly in software development services, travel and tourism and handicrafts. There are also been technical collaborations between Indian and Japanese companies.

4.2. Economic Relations between Thailand and Japan

In line with the FTAs with the ASEAN and other countries and the existence of vibrant economic ties with bilateral trade, Japan signed the Framework for Comprehensive Economic Partnership with Thailand in 2002 and the agreement in principal has been reached between the two sides on all major elements of Japan-Thailand Economic Partnership Agreement (JTEPA) in 2005. Thailand is one of the most important destinations for Japanese investment in Southeast Asia in terms of volume of its FDI in 2004. In this context, the JTEPA is likely to deepen the existing close and cordial ties further for mutually beneficial cooperation. The JTEPA is expected to pave the ground for an East Asian Community, as it covers a comprehensive range of economic activities. The major dents of the agreements in principle of the JTEPA viz., industrial goods; agricultural, forestry and fishery products; customs procedures; paperless trading; trade in services; and investment etc. Being enjoyed the amicable partnership in economic aspects, Japan and Thailand has been expanding their bilateral trade significantly during the past decades. Thailand ranks the 8^{th} largest trade partner for Japan. Japan trade statistics shows that 74 percent of export from Thailand to Japan consists of industrial goods in 2001, while the rest 26 per cent being agricultural, forestry and fishing items. The exports from Japan to Thailand constitute industrial goods, agricultural, forestry and fishing items, currently occupying only 0.87 percent of the entire export amount from Japan. Japan's ODA to Thailand amount to US$ 209.59 million in 2001 while the total amount of the assistance has reached US$ 9,093.34 million since 1967 to 2000 for the use of agriculture, health, environment, education, IT and so on.

Table 5: Trade Intensity Indices of BIMSTEC with Japan

Region/Country	**Export Intensity Index**		**Import Intensity Index**	
	1990-93 average	2000-03 average	1990-93 average	2000-03 average
BIMSTEC Nations:				
Bangladesh	0.47	0.19	1.19	1.14
India	1.34	0.69	0.76	0.51
Myanmar	1.15	0.80	1.14	0.98
Nepal	0.12	0.38	1.89	0.32
Sri Lanka	0.80	0.67	1.31	1.06
Thailand	2.70	2.72	3.28	3.47
BIMSTEC Region:	1.32	1.71	3.00	1.89

Source: Estimated from basic data obtained from IMF (various years), Direction of Trade Statistics Yearbook, Washington, D.C.

5.1. Trade Intensity Indices

The trade intensities have been estimated for BIMSTEC countries with Japan for both exports and imports for the averages of 1990-93 and 2000-03 to evaluate the prospects of overall trade expansion, as shown in Table 5.

The import intensity index is derived from the proportion of the country i's imports sourced from country j, divided by the ratio of country i's exports over total world exports net of country i's share. The Import Intensity Index (Mij) is defined as follows.

$$Mij = \frac{Mij}{Mi} \Big/ \frac{Xj}{Xw-Xi}$$

where Mij = imports of country i from trading partner j

Mi = total imports of country i

Xj = total exports of country j

Xw = total world exports

Xi = total exports of country i

The export intensity index is derived from the proportion of country i's exports directed to country j, divided by the ratio of country j's imports over total world imports net of country i's share. The Export Intensity Index (xij) is defined as follows.

$$Xij = \frac{Xij}{Xi} \Big/ \frac{Mj}{Mw-Mi}$$

where Xij = exports of country i to trading partner j

Xi = total exports of country i

Mj = total imports of country j

Mw = total world imports

Mi = total imports of country i

The indices value of more (or less) than unity of these indices indicate that a country is exporting/importing more (or less) to another country than might be expected from the country's share in world (export/import) trade (Wadhva 1987).

5.2. Analysis of Results

The bilateral trade orientation of BIMSTEC region as a whole with Japan on one hand and six individual member countries each with Japan on the other are estimated for the averages of 1990-93 and 2000-03 as shown in Table 5. Bhutan is not taken into consideration due to the paucity of consistent data. With the exception of India, the import orientation of BIMSTEC members individually and collectively with Japan is higher than that of export orientation, particularly in the former period, 1990-93. India's export orientation was above unity in the former period, indicating a promise for future expansion, however, registered a decline to nearly one-half in the latter period, in addition to the modest decline in the import trade orientation. This may be attributed to its favorable trade inclination towards the United States and the European Union, besides the other developing countries. Among the other members, Thailand registered an abnormal export and import trade orientation with Japan with a periodical rise – a marginal rise in exports and a modest rise in imports from the former to the latter periods. Sri Lanka and Myanmar also recorded appreciable trade orientation with Japan. Having a modest decline in export and import intensities from the former period to the latter, Sri Lanka, however, registered the values of above unity in import intensity, indicating a positive signal for enhancing future imports from Japan. Myanmar's trade – both import and exports – was substantial with Thailand, Japan and India in its total and consequently its trade orientation with Japan was high. It registered the same value of export and import intensity in the former period - above unity - however, like other members of the region its trade has declined in the latter period. The figures in the latter year were also promising, particularly, in imports as it was nearing unity. Nepal recorded a modest increase in export orientation, but there is no hope of future export trade with Japan resulting from a low variety of its export basket. The drastic decline in its import orientation with Japan from the former to the latter period, which was far below unity, did not offer any convincing reason. On the other hand, a modest decline in export intensity and marginal decline in import intensity in Bangladesh from the former to the latter periods indicated nil prospects for exports to Japan, reflecting its low export competitiveness. Owing to its value of above unity, the country revealed good prospects for imports from Japan.

BIMSTEC region's import orientation with Japan was substantially high in the former period and it may be attributed to the major contribution of Thailand. Despite its high intensity in the latter period, the decline was conspicuous due to the steady slow down of the imports of BIMSTEC members from Japan. On the other hand, the region's export orientation was also significant and above unity in both the periods. The modest increase in its export trade was again owing to the domination of Thailand in the region's exports to Japan.

In sum, the BIMSTEC members altogether intend to decline their imports from Japan, with a view to reduce their trade imbalance as well as their inclination towards other industrial countries. The favorable trade orientation of the region is mainly due to the substantial size of Thailand's trade and to a lesser extent to the trade of Sri Lanka and Myanmar with Japan. The prospects for import trade of Bangladesh and Nepal is high, with the exception of the latter country in the latter period, while there is no scope for their export trade with Japan due to their weak competitiveness. India's trade – both exports and imports – has gradually declined from the former to the latter year, particularly in its export trade orientation with Japan, indicating the bleak prospects for future trade expansion, unless and otherwise specific measures are taken.

6. Conclusion

Most of the BIMSTEC members have already benefited from the ODA and FDI flows from Japan in the past. Political stability and security, besides the liberalization of trade regimes and labor regulations and improvement in infrastructure facilities are quite essential for BIMSTEC members to have increased economic linkages with Japan. The cultural and other economic exchanges between the two will pave the way for sustainable relations. There is a possibility to strengthen the ties among BIMSTEC members to pursue the goal of providing secure, reliable and affordable energy, and in this context, Japan can extend suitable technical know-how to harvest the conventional and non-conventional energies. It is undisputed that Japan's technological capabilities and its economic strength will bring a significant change in the economies of BIMSTEC, provided there is an increased economic interaction.

India-Japan relations have to be strengthened in the wake of India's proven edge over other members in the IT sector. There is an immense scope for the Indian IT firms in the sectors of financial and telecom services. The past successes of Japanese companies in India and the vast potential untapped and unexplored in India would probably raise hopes to foster further ties between Japan and India. Now, India has proved itself with an impressive performance of the economy in the Asian region. In this backdrop of the changing global image of India and the recognition for its competency, Japan can revive its economic relationship with India.

The brief account of India-Japan trade, investment and cultural linkages underscores the need for a deeper economic cooperation between the two countries. The fact that the bilateral trade is steadily growing and yet the trade shares are rather small suggests that there is a huge potential for expansion of bilateral trade. The challenge is not only to exploit this potential but also to make trade more broad based and diversified in favor of the high technology manufactured goods rather than raw materials. A great deal of attention would need to be paid to trade facilitation and addressing the issues of various tariff and non-tariff barriers. Trade facilitation that could also cover facilitating trade financing and cooperation between EXIM Banks of the two countries will ultimately lead to further strengthening of India-Japan economic linkages. Similarly, a large potential for trade in services exists in the areas such as IT, IT-enabled services, construction, tourism, animation and entertainment, finance and transportation. This potential is yet to be fully exploited. The barriers to trade in services also need to be addressed to exploit the potential of trade in services for mutual benefit. Bilateral investment flows between India and Japan can be promoted fruitfully by both business chambers and government agencies through organized institutional promotion campaign. Japan has already invested in India in automobile, electrical equipments, telecommunications, transportation industry, machine tools, chemical industries, and financial sector. Major Japanese construction companies with full overseas experiences could participate in India's projects for building physical infrastructure and special economic zone projects.

The economies of India and Japan are highly complementary in terms of factor endowment, capabilities and specializations. While India has rising working class, ageing population has been creating demographic pressure in Japan. India's cost-effective human resources may complement growing labor scarcity and rising wages in Japan. Japan's strong capacity in IT hardware is complemented by India's software prowess. India's capabilities in pharmaceutical industry, biotechnology, and auto components usefully complement Japanese competence in heavy engineering, automobiles, machinery and pharmaceutical industry. While there is substantial underutilized capacity in India's infrastructure sector, Japan has cutting technology and strong supply side capacity in infrastructure sector. Presence of a vibrant entrepreneurial class in both the countries is also the key to facilitating trade; investment and technology transfer between them. Even though there are some differences between India and Japan in terms of economic structure, these differences can ignite great possibilities for the two countries to complement their economic efforts. A number of Japanese companies may consider India as an ideal destination for their relocation or global sourcing. Opportunities for expanding business cooperation also exist in engineering, design engineering and construction services. Joint venture partnership between Indian and Japanese companies in these areas may bid for the projects within the country as well as in the third countries.

The intensified economic interaction between India and Japan benefits both the economies, besides the increasing strategic relationship. Thailand followed by Sri Lanka and Myanmar are having better economic relations with Japan and if India joins in this group by interacting carefully and wisely, there could be a comprehensive economic cooperation between BIMSTEC and Japan and it will surely benefit the economies of whole Asia in the coming years.

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