

Pakistan-Japan Relations

1. Japan a “Rising Economy”

Japan has the world's third-largest economy, having achieved remarkable growth in the second half of the 20th Century after the devastation of World War II. Its role in the international community is considerable. It is a major aid donor and a source of global capital and credit. More than three quarters of the population live in sprawling cities on the coastal fringes of Japan's four mountainous, heavily-wooded islands.

Japan's rapid post-war expansion - propelled by highly successful car and consumer electronics industries - ran out of steam by the 1990s under a mounting debt burden that successive government have failed to address. The 1997 Asian financial crisis, and bouts of recession, precipitated major banking, public spending and private sector reforms.

Japan is divided into nine region and 47 prefectures. Each region is economically independent and has its own initiatives for foreign trade. Tokyo being the capital is the hub of major economic activities, while Osaka is famous for its clusters of Textiles, Fruit & Vegetables, Pharmaceuticals and SMEs. Therefore, a focused trade promotion strategy will have to be devised for each region. In the context of Japan China Bilateral relations, the Japanese private sector is looking for an alternate source to China under China plus one strategy. During last year, there was 7% decrease in imports of textiles from China. All major competitors are offering themselves as an alternate to China through their aggressive marketing efforts. It is also high time for Pakistan to make all possible efforts for actively engaging with Japanese entrepreneurs especially the SMEs as they play a vibrant role in the economy of Japan.

Japan is member of regional agreements including ASEAN–Japan Comprehensive Economic Partnership (AJCEP), ASEM (The Asia Europe Meeting.), APEC (Asia-Pacific Economic Cooperation), OECD (Organization for Economic Cooperation and Development), G8. Japan is also currently engaged in negotiations for the TPP (Trans Pacific Partnership Agreement). Moreover, Japan has concluded EPA (FTA) with the 13 countries including India¹.

2. Pakistan-Japan Relations

Pakistan and Japan have had friendly relations since many years. For the past 62 years, not once did both the friends leave each other's hand. Despite having their friendship tested for more than once and crossing various difficult phases, both of them stood with each other side by side. Their friendship started in the early 1950s when the agro-based country Pakistan, started producing one of world's finest cotton. Japan's advanced spindles and other textile machinery helped to start industrialization in Pakistan. With time, both the countries became good trading partners. Pakistan enjoys cordial relations with Japan since 28th April 1952 when Japan opened its

¹ Ministry of Economy Trade and Industry, Government of Japan.

initial trade office in Karachi in 1952. The relationship has kept growing to the mutual benefit of the two countries.

3. Bilateral Trade and Economic Relations

3.1. Pakistan Japan Bilateral Trade.

Pakistan's economy, being export-oriented, faces challenges over its energy policy as well as external risks including weak economic and law and order conditions. Government of Pakistan is looking forward to build strong economic ties with developed economies like Japan to stabilize its economy.

Japan is an important trading partner of Pakistan. It is 6th largest import destination of Pakistan.² Therefore, balance of trade always remains in favor of Japan. Pakistan's total exports to Japan were US\$ 438.6 Million in 2012 whereas imports from Japan were US\$ 1,547 Million. However, there is a significant increasing trend in exports of Pakistan to Japan whereas continues decreasing import trend has been witnessed.

The following table shows bilateral trade and its trend between Pakistan and Japan for the last five years.

Bilateral Trade between Pakistan and Japan²

(Thousands of US Dollars)

Year (Jul-Jun)	Japan's Imports	Japan's Exports	Total Trade
2013 (Jan-Dec)	476,434	1,428,325	1,904,759
2012-13	438,628	1,547,118	1,985,746
2011-12	386,110	1,806,190	2,192,300
2010-11	467,099	1,443,120	1,910,219
2009-10	280,624	1,242,052	1,522,676
2008-09	258,060	1,048,183	1,306,243

² Ministry of Finance, Government of Japan.

3.1.1. Exports.

Major products being exported by Pakistan to Japan have been mentioned in the following table. It also shows % share of Pakistan in total imports of that trade group.

Pakistan's Exports to Japan

Amount in US\$ (000)

S.No	Products	2012-13	2011-12	2010-11	2009-10	2008-09
1	Organic Chemicals	120,275	100,253	31,503	18,275	30,214
2	Petroleum Products	81,295	12,573	236,259	103,588	38,999
3	Cotton Yarn	43,210	64,678	63,345	32,189	46,800
4	Copper	28,946	46,910	32,210	48,422	69,698
5	Cotton Fabrics	24,323	36,208	21,032	10,003	14,042
6	Garments	9,028	6,964	5,088	4,033	2,752
7	Tanned Leather	8,561	8,052	7,594	5,457	7,141
8	Fish	8,133	8,520	4,321	4,706	6,995
9	Towels	7,514	4,835	2,137	1,563	1,489
10	Floor Coverings	6,012	6,702	5,304	4,778	5,228
11	Surgical Instruments	5,061	5,149	4,894	4,432	3,846
12	Sports Goods	4,937	4,905	5,079	4,034	4,675
13	Bed Linen	2,365	3,794	2,628	1,274	1,043
14	Hosiery	1,904	635	444	372	102
15	Leather Gloves	1,028	824	706	440	435

It may be noted that an increasing trend has been witnessed in textile, leather products food and sports goods. We have to keep up this trend. The exports of cotton yarn depend on the crop of cotton in that year so it can fluctuate.

3.1.2 Imports.

Pakistan's imports from Japan in 2012-13 were \$1,547 million as compared to import of \$1,806 witnessing a decrease of 16.7 %. Major products of import are Automobiles, Auto parts, Medical Equipment, Power generators, Textile Machinery, Construction Machinery, Chemicals, Electronics Audio-visual equipment

4. Trade potential with Japan.

Pakistan's share in the Japanese market is only 0.2%. The following table shows the potential of Pakistani product for Japanese market³.

Amount in US\$

S. No.	Product Name	Global Import of Japan	Pakistan Share (%)
1	Textile made up articles including towel & Bed linen	3,860,332	0.4
2	Articles of leather & leather apparels	6,300,151	0.1
3	Fish & fish preparations	13,940,675	0.1
4	Articles of apparel, accessories, not knit or crochet	16,404,012	0
5	Articles of apparel, accessories, knit or crochet	15,633,443	0
6	Sports Goods	7,203,391	0.1
7	Cutlery & Surgical Instruments	1,682,525	0.1
8	Furniture	8,305,985	0
9	Vegetable, fruit, nut, etc. food preparations	4,013,408	0
10	Footwear	5,904,218	0

It may be noted that Japan imports 97% of its textiles from China only. However, there is a decreasing trend in importing from China for the last three years. Last year, there was 7% decrease in imports of textiles from China. The major factors for this trend include (1) increasing exchange rate with Chinese Yuan (2) Increasing labor cost in China (3) Labor shortage for Chinese textile industries (4) Political issues between China Japan creating risks for importers and (5) wider choices available for Japanese importers. This opportunity is being captured by Indonesia, Vietnam, Bangladesh, Thailand and India. Pakistan should not miss this opportunity. Extensive marketing efforts should be under taken. Japan should be declared by TDAP as focused country.

Similarly, Japan is the largest importer of food items in the world. Pakistani mangoes have already made inroad in this market. Reinforcement efforts are need of the hour to make a full entry in this market. Moreover, Japan would be hosting World Olympics in 2020, opening window for our sports goods.

³ Trade Map, ITC.

5. Pak-Japan trade investment Projects:

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. The major projects, which have been funded by the Government of Japan, include the:

- Indus Highway project
- A number of power projects in various provinces of Pakistan
- Rural Roads Construction Project
- The Children Hospital PIMS Islamabad Project.
- Kohat Tunnel project
- The Ghazi Brotha Dam Project is being completed with the help of Japanese assistance.
- Suzuki, Toyota and Honda Motors.

6. Impediments to Trade

6.1. Price Competition:

Pakistani exports of textiles, leather products and fish preparations are facing severe price competition from the duty free imports from least developed countries.

6.2. Visa Restrictions:

Closer interaction between the business communities of country is the key of successful business, which is possible only through frequent visits of the business community of both countries. But for a Pakistani businessman it is extremely difficult to get a business visit visa to Japan although recommended by TDAP and the Embassy of Pakistan.

6.3. Special Tariff for LDCs (Less Developed Countries):

Japan has special tariff scheme for imports in sectors like leather, textile and seafood, from LDCs including Bangladesh, Nepal, Myanmar. Duty free imports from LDCs such as Bangladesh in sectors like textiles and leather make the prices of Pakistani products less competitive.

6.4. Threat from Intended FTAs:

Japan is perusing Free Trade Agreement (FTA) led Foreign Trade strategy. This would, not only facilitate Japanese businesses to face the competition from ASEAN and Chinese producers but also allow greater market access for the FTA partners in the Japanese market. As a result, the major exports from Pakistan, which are also major exports of ASEAN countries, would become less competitive as regards the prices.

6.5. Limited Range of Products:

The range of the products offered by Pakistan is very limited. For example in carpets we rely on hand knotted carpets in spite of the fact that the Japanese market for hand knotted carpet is shrinking.

Similarly in textile sector the range of the products being offered by our competitors like India, China and Malaysia is far wider range than the products offered by our exporters. Pakistan has great potential to export surgical instruments and leather products but unfortunately our traders fail to explore this market.

6.6. Lack of Product Development:

We tend to sell whatever we have instead of finding out what the buyers want to buy. For example if we cannot sell basmati rice to Japanese consumer, we can sell other kind of rice to food processors or rice flour. Efforts must be made to understand the demands of Japanese market and to develop the products accordingly.

7. Factors affecting Japanese Market Penetration

- Japanese firms tend to buy from their own subsidiaries established in other countries.
- Over the last few years, most of the Japanese textile manufacturers have shifted their manufacturing facilities to other countries mainly China and ASEAN countries. This relocation resulted in less demand for raw cotton, yarn and fabric.
- The import regulations, applicable standards and quarantine requirements make it all the more difficult to export Pakistani products specially food items.
- Pakistani exports also have the disadvantage of being more distant form the market than its competitors, such as China, Russia, Thailand, Korea etc. This not only increases transportation costs but also delays the delivery of goods, whereas Japanese importers prefer small size lots with short delivery schedules.
- Stiff competition in price and delivery time with China, Hong Kong and Indonesian suppliers.

8. Why Our Competitors Successful In Japan

The most important realization or strategy employed by other countries is that they package and design their products according to Japan market specification. Packaging is the most important marketing tool in the Japanese market, which Pakistan has never concentrated on. Our exporters and delegations bring poorly packaged goods with English brochures and materials which no one in Japan understands or appreciates. This is Japan and they require Japanese materials. Japan is a market that attaches great importance to a nicely wrapped product.

9. Emerging opportunities for Pakistan in Japanese market

- Japanese companies especially in textiles are looking for alternate placement of orders under China plus one policy
- Japan is holding 2020 Olympics – a window for our sports goods and sports wears
- Mango is making its roadway to Japan.
- Due to recent Philippines typhoon, there is a vacuum for fruit and vegetables exports to Japan.
- Process for lifting of import ban on Kinnows from Pakistan initiated.
- New opportunity for Pakistani ribbonfish after the ban of South Korea due to Fukushima incident.
- Japan is a growing market for Halal food, especially the processed halal food.
- The graying society of Japan is offering opportunities for our agriculture, nursing and paramedical services

10. Export Promotion Strategy

Keeping in view the market requirements, Japanese consumer preferences, competitors' strategies and changing dynamics of Japanese market, an integrated product focused approach is devised to enhance Pakistan market share in this market. Selection of product sectors of Pakistan has been made on the basis of competitive advantages, production base, global acceptability and market demand. At the first stage five product sectors including Textile especially Home Textiles, Leather, Food, Sports Goods and Surgical Instruments have been identified. So, all trade and investment promotion activities would be primarily focusing these sectors. The following tasks must be undertaken to achieve the desired results.

- Trade diplomacy
- Trade promotion activities,
- Investment promotion activities
- Data base development
- Display centers
- Business counseling,

10.1. Trade Diplomacy

Trade Diplomacy must be used as the most important tool to address the issue of market access. There must be interaction at government level, facilitating B2B dialogues. In Japan, the policy making is being carried out, with a triangular thought process of Academia, Innovation and the Government. There is very strong need for lobbying at the highest level and hence it must be planned to conduct:

- Highest level interaction with the existing 76 Trading/Manufacturing Companies already in Pakistan.
- Highest level interaction with Potential Trading/Manufacturing Companies already in Pakistan.
- Highest level interaction with the Academia
- Highest level interaction with the electronic & print Media of Japan
- Highest level interaction with the Public Sector of Japan.

10.2. Trade promotion Activities:

10.2.1 Awareness Seminars

The Japanese buyers lack awareness about the production capacity and export potential of Pakistani products. Product specific seminars must be conducted in major cities. The trade bodies including Chambers of Commerce & Industries, government organizations and concerned importers must be engaged in this regard.

Awareness seminars must also be planned to create awareness among potential investors of Japan for Japan Special Economic Zone, Karachi. This must preferably be synchronizing with the visiting delegation of Pakistani exporters. The desired results from this exercise would be to reach out the potential buyers, to create awareness and to disseminate information about export potential of Pakistan and to identify delegates to be sent to Pakistan.

10.2.2 Trade Fairs & Delegations

Successful entry in the Japanese market can only be possible by cultivating business contacts through frequent personal visits. Japan's business culture attaches a high degree of importance to personal relationships, and these relationships take time to establish and nurture. Patience and repeated follow-up are typically required to clinch a deal. Therefore, both incoming as well as out-going trade delegations must be organized and trade fairs must be arranged for business matchmaking on both sides.

10.3. Investment Enhancement:

Pakistan offers over 180 million consumers, huge untapped resources, fully convertible currency, unrestricted equity, unconstrained profit repatriation, no compulsion for a local partner, no double taxation and attractive tax breaks which has so far lured 600 multinationals. This needs to be marketed in Japan, which is leading investor in Pakistan. Government and trade facilitating bodies in Pakistan must take effective steps to flow information regarding favorable and unexploited investment opportunities for Japanese investors, either through media or by arranging special meetings, conferences and seminars.

The sectors identified for investment promotion are energy, infrastructure and manufacturing. Especially in textiles joint venture must be promoted and transfer of technology should be encouraged. The Chambers of Commerce and Industry and government organizations must join hands for arranging investments enhancing activities.

10.4. Data Base Development:

Complete data base must be developed of our total trade as well as, region wise and product specific data of the Japanese importers must be developed. Each company must be verified according to the scale of its operation i.e., on the basis of its annual turnover and annual imports. The database must be shared with the leading trade bodies of Pakistan besides TDAP. Moreover, list of major Pakistani exporters of said sectors prepared by JICA in the Japanese language must be circulated for quick response to the Japanese importers.

10.5 Display Center:

Keeping in view the limited travel and less interaction between the Japanese and Pakistani entrepreneurs, Display Center would be an important marketing tool. Japanese would engage in serious trade talks if we have samples of the products that is why all our competitors have established display center. Many regional competitors have successfully adopted this approach. All interested exporters must be approached to display their exhibits.

11. Recommendations

- Investment in the areas like infrastructure and population welfare is limited. For reaping substantial benefits, Japan may increase its investment in the non-traditional areas too. Such cooperation would 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 in Pakistan.
- 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. This bond of friendship can be further strengthened by conducting fairs & exhibitions in both the countries.
- 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 development projects.
- In the beginning, the private sector was not entering into new areas, since they had limited information. Thus, with the help of chambers and other trade related bodies, both the countries can expand their economic relations and mutual benefits, as an ample scope exists for such improvements. Strong relations between the chambers of both the countries and other trade bodies need to be established to connect the private businessmen of both the countries.
- Trade delegations must be sent across both the countries.
- To encourage business activities visa restrictions must be removed to facilitate business visits.
- Japan is presently importing surgical instruments from round the world whereas, Pakistan's share is merely 0.1%. Pakistan, especially Sialkot industry is exporting quality surgical instruments to various international markets and has the potential to cater the needs of the Japanese market by providing them quality products at reasonable prices. Therefore Japan should consider the expertise of our surgical sector and enhance business in this field. The governments at both ends must devise policies for the mutual benefits of both the countries. Trade delegations and exhibitions must be planned for giving boost to our surgical sector in the Japanese markets.
- Sialkot industry is famous for its sports goods, leather and textile products globally. Japan is importing all these products from other countries, in order to strengthen business ties between both the countries, Japan must provide opportunities to our exporters and increase its imports in these product lines. Positive efforts are required at both government and industrial level to increase our share in Japanese markets.

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