Emilia Fábián

Short Review of the EU-Japan Bilateral Relations

Abstract

Japan is EU's most important partner in the Asian region. The EU and Japan have become the leading economic powers in the world during the last four decades. Their relation is significant since they own one of the greatest economies of the world.

The report will focus on the economic relations of the two countries, after introducing the most important economic indicators, highlights on the history of their connection, which were the main points and documents evolved since taking the first diplomatic steps. The trade balance and foreign direct investment structure shows unequal situation which favors to Japanese interests and the European Union tries to work out different recommendation of solution to the existing problems. In the last part of the report it is essential to summarize the prospects of their future relationship.

Main Economic Indicators

The EU27 has 7%, and Japan has 2% in world population. The 25000 and 26000 euro GDP per capita shows that both belong to the club of developed economies though the last years faced heavy crisis. In 2008 EU27 had 3,7% and Japan 1,4% suffered by emerging inflation rates. With a combined population of 620 million, the EU and Japan comprise less then 10% of world's population, but over 40% of its GDP and nearly 30% of world trade and provide half of the world's outflow of FDI.

Historical background

Japan became conscious of the importance of European integration in 1957 at the same time as European Economic Community was created. The phenomenon of European integration made Japan understand the necessity of staying on the competitive edge in the developed market outside the United States. Japanese politicians and business leaders launched a method attack on Europe to keep the market open for Japanese products.

Their relations date back to a history half a century long, when Japan's Ambassador in Belgium accredited as Japan's first representative to the three European Communities. From 1960 onwards there have been a series of conflicts caused by Japan's economic expansion in Europe nevertheless, Japan has been able to produce a trade surplus with the Community ever since. In the early 1960s, Japan's exports to Europe consisted mainly of ships, textiles, steel, electronics and automobiles. Thereafter the European Community imposed the first time antidumping duties against Japanese products. Japan has always managed to offset any European measures that had meant to balance her growing competivity, as well as to keep her market to herself and thus exclude European products therefrom. The Japanese reaction to this new defense mechanism was to increase the amount of production facilities in Europe. But Japan's trade surplus with the EU continued to increase with rising exports.

While on the one hand there are still trade disputes between the European Union and Japan, on the other hand we can see an increase of the importance of the EU as such as a trading partner for Japan, while Japan's bilateral relationships with the member states of the EU still have a momentum in their economic interrelations.

In recent years, EU-Japan relations have developed the trade-related focus and today's bilateral relationship is governed in two key documents. The Joint Declaration on relations between the European Community and its members and Japan of 1991 and the Action Plan for EU-Japan Cooperation of 2001.

The Joint Declaration established common principles and shared objectives in the political, economic, cooperation and cultural areas and established a consultation framework for annual meetings between Japan and the EU. For annual meetings the main political goal of the EU in the negotiations with Japan as a partner, is actually a very simple and clear objective. They would like to achieve an equal balanced position with Japan and so to gain better access to the Japanese market. Though the Joint Declaration did not commit either side to specific obligations except providing opportunities for dialogue, access to the highly-regulated Japanese market was very important for the EU. Officials from the Japanese government and the European Commission began discussing about proposals for removing barriers to market access. This eventually became the Dialogue on Regulatory Reform in 1994.

The Action Plan for EU-Japan Cooperation, signed in December 2001, builds upon the Joint Declaration by expressing more precise objectives for the development of the EU-Japan relationship. This includes a provision entitled, 'Strengthening the economic and trade partnership'. Importantly, the Action Plan includes a commitment to, reinforcing regulatory reform dialogue in order to foster self-sustained growth. This is important because it gives a formal basis for the dialogue on market access and deregulation which was absent in the Joint Declaration. The Action Plan also commits the two parties to continuing the dialogue with a more consistent approach in the future.

EU's Trade Balance and Foreign Direct Investment in Japan

During the past several decades international production and trade have changed quite a lot. A large unified block of traders has emerged in Europe and it is clear that the structure of Japanese trade has undergone the most important changes on the export side. The trade relationship between Europe and Japan has historically been characterized by strong trade surplus in favour of Japan. Several developments led to an improvement of trade relations at the end of the 1980s. The improvement of the European economic situation on the one hand, and the incentive strategies toward Japanese investments introduced by the British, French and German governments on the other hand. 'As a result, Britain has become Japan's favored destination for investment (44% of all Japanese investment into the EU, followed by the Netherland with 21%). With a total of 274 cases out of a total of over 1000 Japanese companies in the country, Britain is the preferred location for Japanese direct investment in Europe in the manufacturing sector, followed by France and Germany.' Japanese companies have also begun to invest in countries like Hungary, Poland and the Czech Republic before these countries were admitted to the EU.

In the 1980-1990s EU member countries urged Japanese business to supplement their manufacturing capacity with research and development facilities. The EU investment in Japan was imbalanced because of the high Japanese labor and real estate costs. European investment was only 10% of the Japanese FDI investement in the EU. Among the European states the Netherland has been the one that topped the investment volume in Japan, while Germany come second and Great Britain the third.

There are enormous potential trade opportunities for European business in Japan. Huge differences can be seen from 2006 to 2008. The trend inflows of FDI has been quite dynamic over the past years with a substantial increase of 2-way investment flows. Japan is a major investor in the EU but over the past 5 years the EU has become an important investor in Japan. However, FDI to Japan remains very low if compared with other developed countries.

EU Trade with Japan by Main Sectors

We can observe a great change in the structure of the goods sold to Japan in the past some decades. While in the 1950s it were mainly textiles and light manufactures, then TV sets and steal in the 1960s, the export of automobiles and capital goods dominated the market in the 1970s and the 1980s. From then onwards Japan has rather concentrated on exporting products of the machinery sector and so the share of total exports from around 40% in 1970 it has increased to 70% in 1995. While we can see an increasing openness of the Japanese market nowdays we also understand that EU's imports of machinery products from Japan have intensely increased from 10% in the 1980s to 23% around 1995.

In 2008 the European Union imported from Japan mainly machinery and transport equipment (72%), then followed by other manufactured articles (11%) like digital cameras, chemicals (8%), materials (7%). Japanese import showed similar tendency, machinery and vehicles (35%), pharmaceuticals, chemicals (21%), other manufactured articles (17%), then materials (9%), food, live animals (6%), and beverage, tobacco (3%). (European Commission Trade, Trade Statistics, downloaded 02.05.2010) Among the EU Member States, Germany was by far the largest exporter to Japan, 31% of the total, followed by the United Kingdom, France and Italy. Regarding the trade, EU's exports to Japan in services exceeded the Japanese exports so the balance favored EU.

Japan's main trade partner within the EU

There has been an organization funded to assist both the trade and the cultural relations between Germany and Japan and this organization has shouldered responsibility of working as the German secretariat of the the German-Japanese Forum. The so-called Japanese-German Centre in Berlin (JGCB) offers a wide range of activities in the fields of economy, science, politics and culture and it organizes conferences, lectures, exhibitions and the exchange of experts in these fields.

Investing in Nanotechnology is a preferred area of research and development by the Japanese companies in Germany. North Rhine-Westphalia is one of the most developed state where the necessary conditions for further researches of the human future are given. Germany and Japan are working hard on developing alternative energy resources and try to diminish Russian oil and gas dependency in the near future.

Problems and Prospects

As mentioned before, the trade relationship between Europe and Japan has historically been characterised by strong trade surplus in favour of Japan which resulted unbalanced economic relations. However, the fact that Japan's trade and account surpluses have remained high, even when the economy was growing, the market access problems have not been solved for foreign firms in Japan. Structural obstacles should be removed in order that companies from the EU could invest freely in Japan. Trade-related negotiations now involve standards for testing and exchanging certificates as well as other regulatory obstacles (e.g. public procurement and distribution), tariff barriers and quantitative restrictions and structural problems.

With growing integration and enlargement, the EU is becoming ever more important as an economic and political partner for Japan.

The EU and Japan continue to work bilateraly on market-access restrictions. From the EU side, these include issues such as public procurement, FDI, health sector, telecommunications, air and sea transport, and financial services. Japan raises issues such as environmental legislation, accounting standards, work and residence permits as well as driving licenses.

Both the EU and Japan are aware of the dependent situation on energy resources. In order to eliminate further difficulties, they are striving to work on the possible solutions like EU-Japan Cooperation on Energy Technology, because the importance of innovative energy technology is highly recognized. Furthermore, during the meetings the experts enhance cooperation on research and development to achieve energy security and tackle climate change.

'At the beginning of the 21st century, Japan-EU relations can no longer be regarded merely as an adjunct to their respective relations with the U.S., nor as simply reactions to the major international upheavals resulting from the ending of the Cold War. Incremental steps over decades of mutual interaction have developed into a 'habit of interaction' that now characterizes their bilateral relations. The relationship between Japan and EU may become a significant international partnership, one which can address effectively many of the salient issues of the new millennium.'

I have made this quote as my conclusion because I completely agree with the ideas it developes. Furthermore, I need to add that both parties being decisive economic powers, their position in the economy will surely entitled them with an utmost political significance. International partnership between Japan and EU must be looked on from now onwards as a significant if not predominant issue of the near future.

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