Change and EU-Japan Relations:
Spotlighting Economic & Business Organization

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Outline

- The Lion, the Bear & the Fox
- Current Issues
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  - Overview: Barriers & Challenges
  - Preoccupations vs. Progress
- Structures and Patterns of Organization
  - Unique, Uniform
  - Webs of relationships
  - Cases
- Beyond State-to-state Discussions

Dual Impact of EU-Korea FTA

Machinery & Transport Equipment

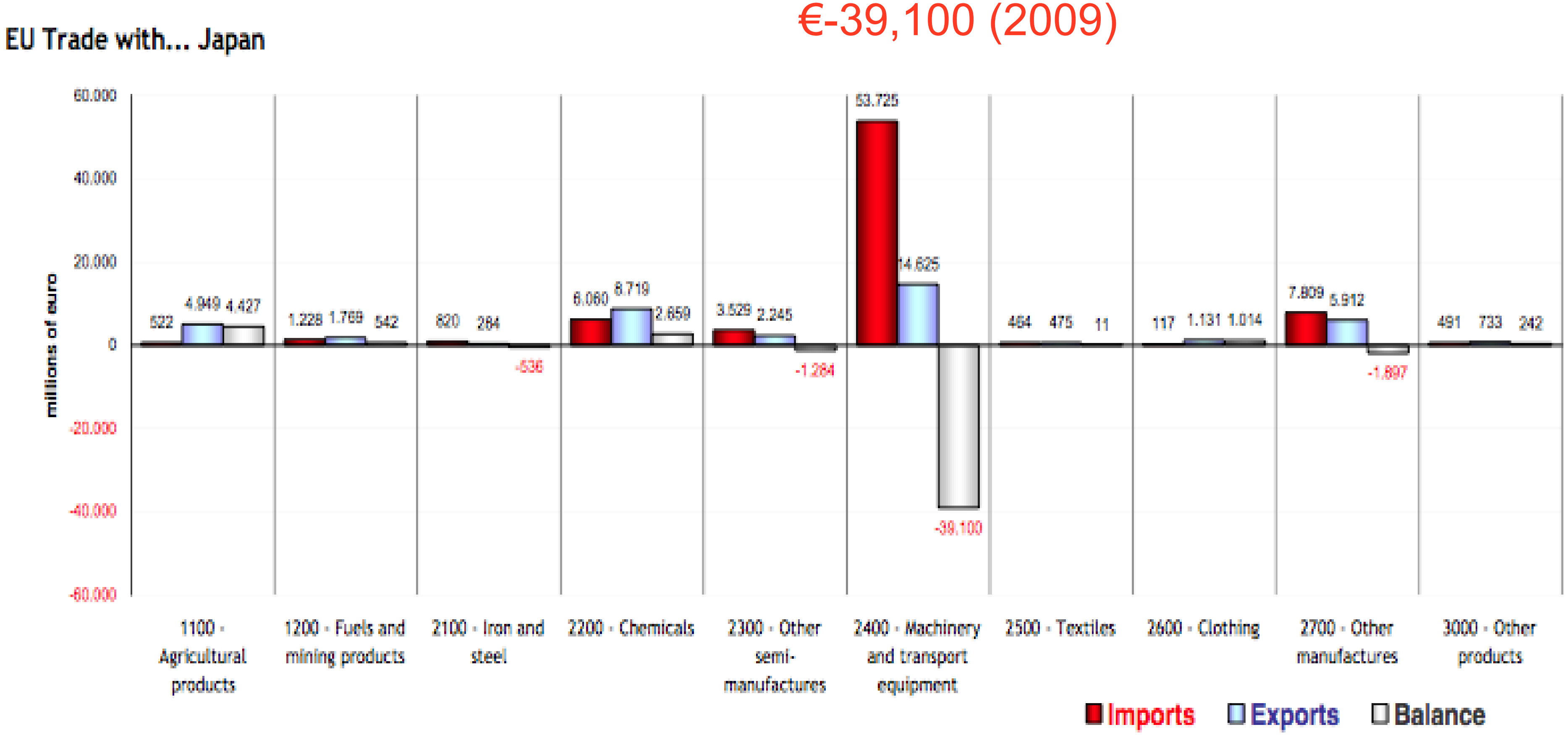
For Japanese affiliates operating in Europe:

- Japanese FDI in Europe enhanced intra-industry trade and interregional trade (Wakasugi, 1997);
- Intra-firm trade (within MNCs) increased;
- Japanese FDI increased EU-ASEAN intra-industry trade (Andréosso-O'Callaghan & Bassino, 2001); Exception: transport equipment
- FDI -- particularly in new EU member states -- enhanced intra-industry trade between Japan & Europe (Yoshida *et al, 2009*).

Sources: Andréosso-O'Callaghan, B. And Bassino, J-P. (2001) "Explaining the EU-ASEAN Intra-industry Trade Through Japanese Foreign Direct Investment: The Case of High-tech Industries, *Journal of the Asia Pacific Economy*, 6(2): 179-93; Yoshida, Y., Leitao, N.C. And Faustino, H.C. (2009) "Vertical Intra-industry and Foreign Direct Investment between Japan and European Countries, *Atlantic Economic Journal* 37: 351-65; Wakasugi, R. (1997) "Missing Factors in Intra-industry Trade: Some Empirical Evidence Based on Japan," *Japan and the World Economy* 9: 353-62.

EU trade with Japan is dominated by a **trade imbalance** in machinery & transport equipment.

€-39,100 (2009)



Source: EU, "Japan: EU Bilateral Trade and Trade with the World," DG Trade, 22 September 2009, p. 10.

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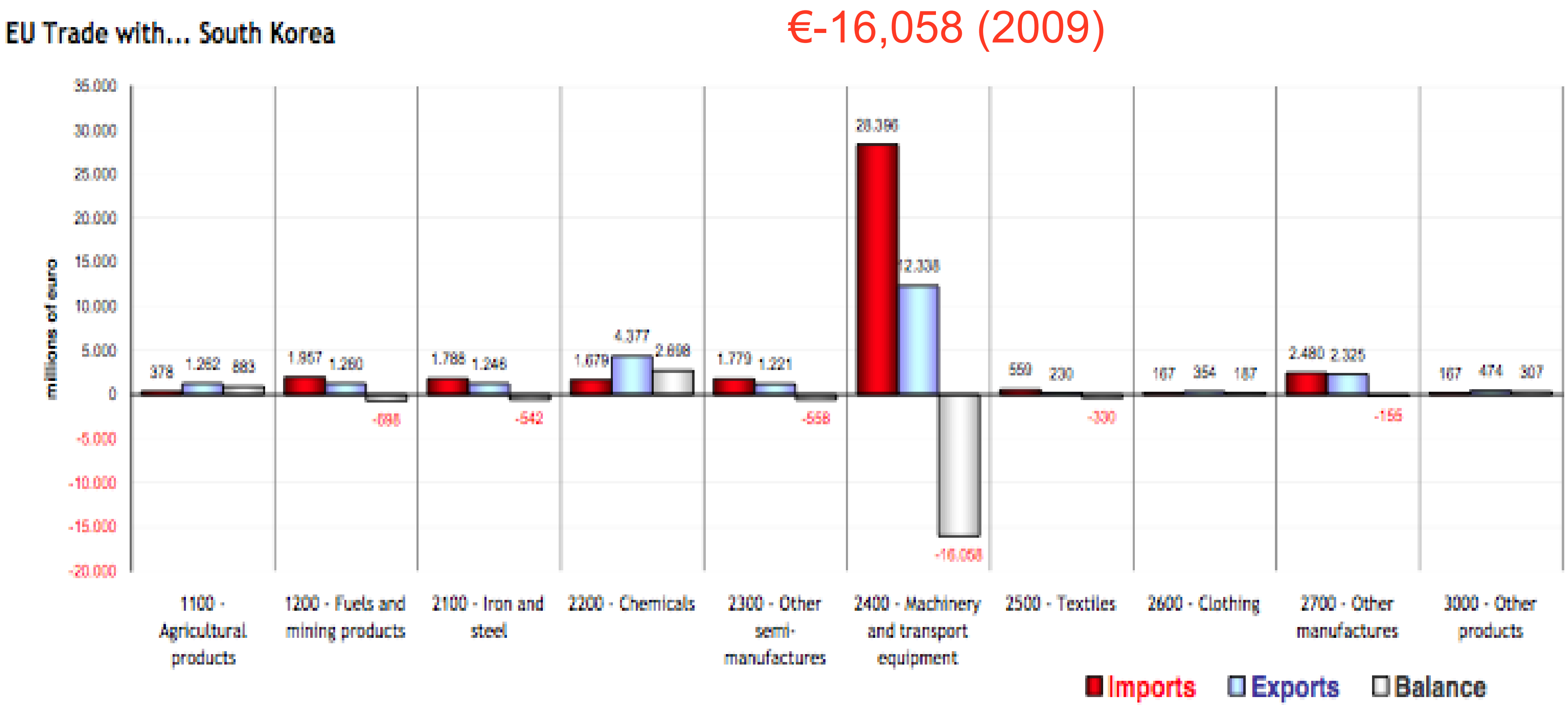
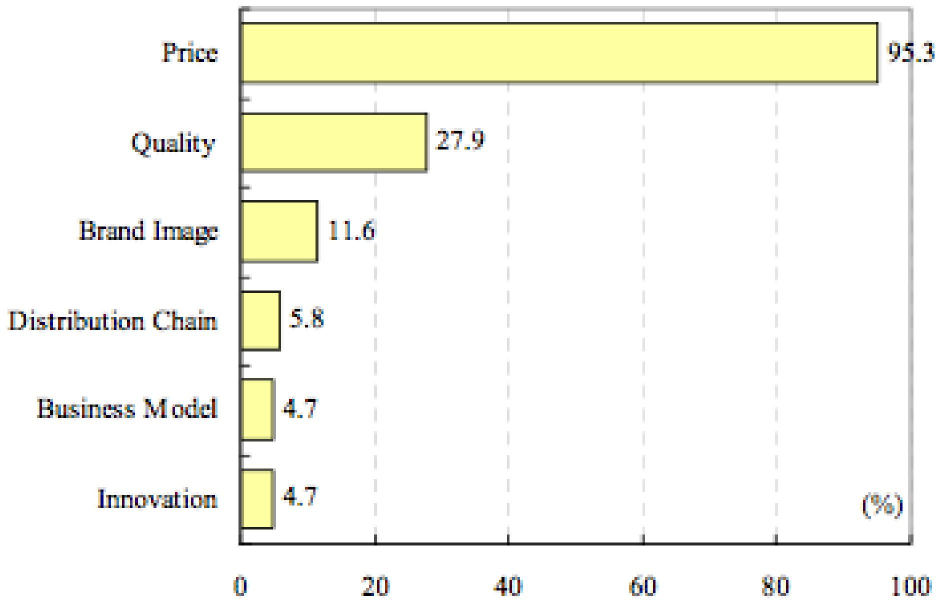


Source: EU, "South Korea: EU Bilateral Trade and Trade with the World," DG Trade, 22 September 2009, p. 10.

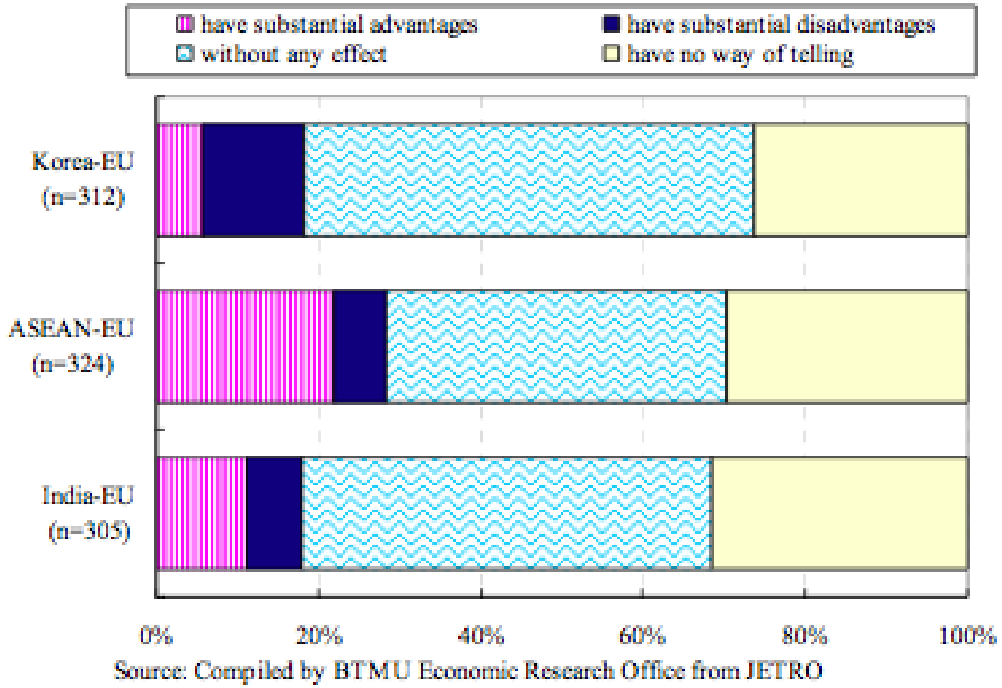
Price is the top competitive factor between Japanese & Korean manufactured products. EU's tariffs: …



Note: N=86, multiple answers allowed
Source: Compiled by BTMU Economic Research Office from JETRO

Source: Bank of Tokyo-Mitsubishi UFJ,"The South Korea-EU Free Trade Agreement Negotiations: Some Observations," *Economic Review*, vol. 4, no. 4, August 2009, p. 5.

For Japanese manufacturing affiliates in Europe, Korea-EU FTA is expected to ‘**have substantial disadvantages**,’ larger than ASEAN- or India-EU FTAs.



Source: Bank of Tokyo-Mitsubishi UFJ,”The South Korea-EU Free Trade Agreement Negotiations: Some Observations,” *Economic Review*, vol. 4, no. 4, August 2009, p. 5.

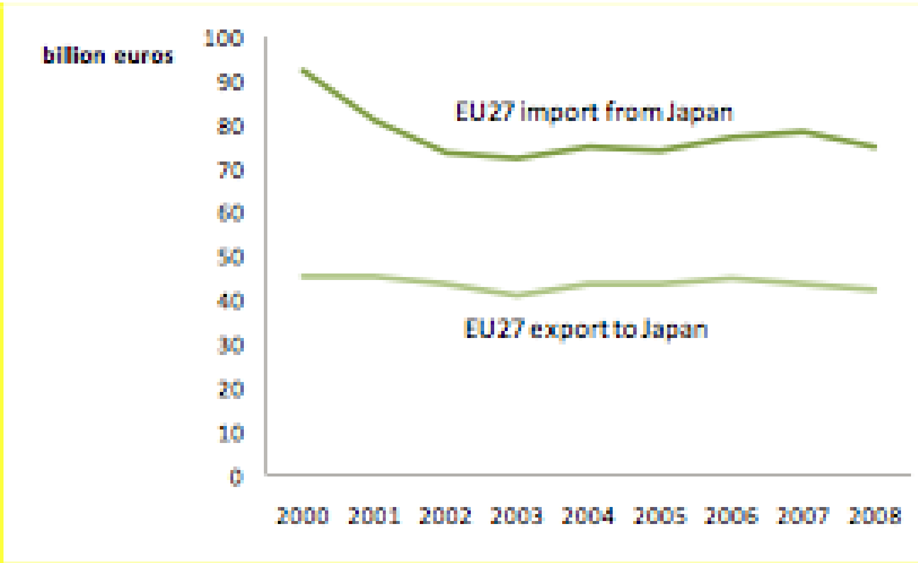
Overview: Barriers & Challenges

		Japan	**EU**
World GDP	44 % (Japan + EU)	11 %	33 %
Trade in Goods	Exports: Target Co. GDP	15 %	10 %
	Imports: Domestic Demand	6 %	17 %
Services	Trade in Services	6.3 %	7.6 %
	Export Orientation in Services	2.9 %	4.1 %
Trade Partners	Imports	EU ranked 3rd	Japan ranked 4th
	Exports	EU ranked 3rd	Japan ranked 5th
Gravity Model (Tariffs & NTMs removed)	**Exports**	**30-32% increase €25-28 billion**	**23-50% increase €14-29 billion**
	Welfare Effects	**€18 billion**	**€33 billion**

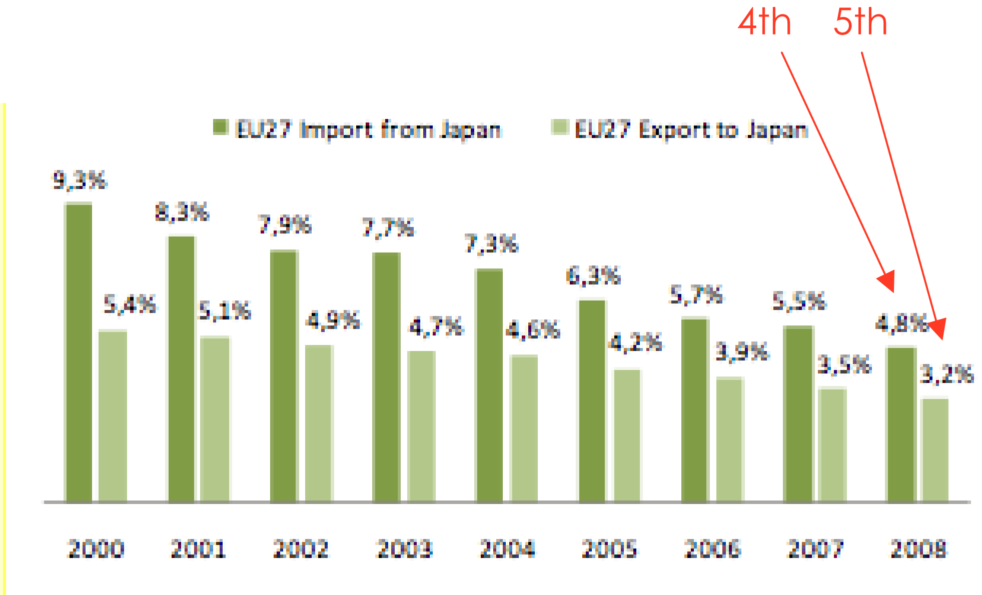
Sources: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, pp. 6-9.

EU-Japan Trade in Goods, 2000-2008, € billion
Imports from Japan dropped; Exports to Japan steady.

EU-27 Trade with Japan, 2000-2008
Ranked 4th & 5th as a per cent of total trade



Source:Eurostat, COMEXT

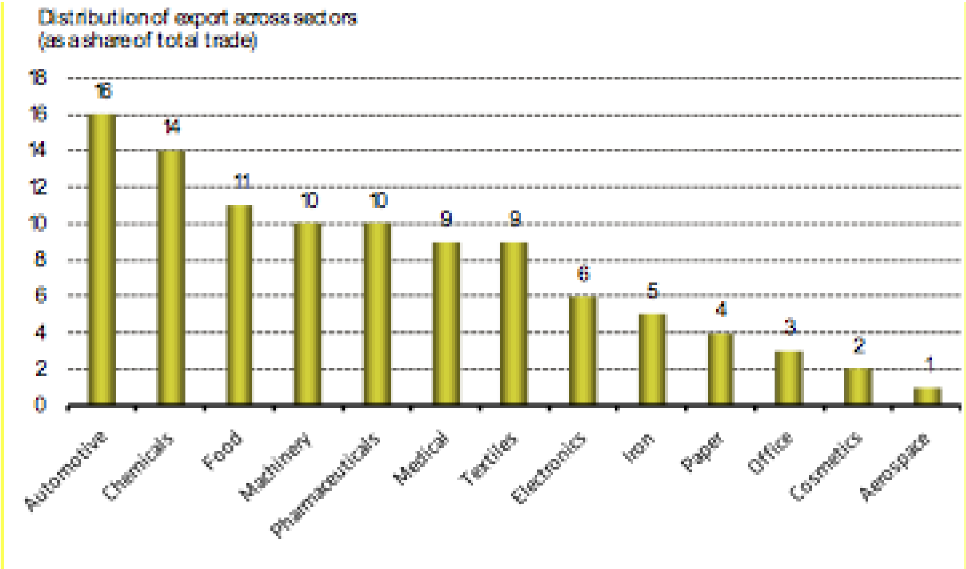


Source:Eurostat, COMEXT

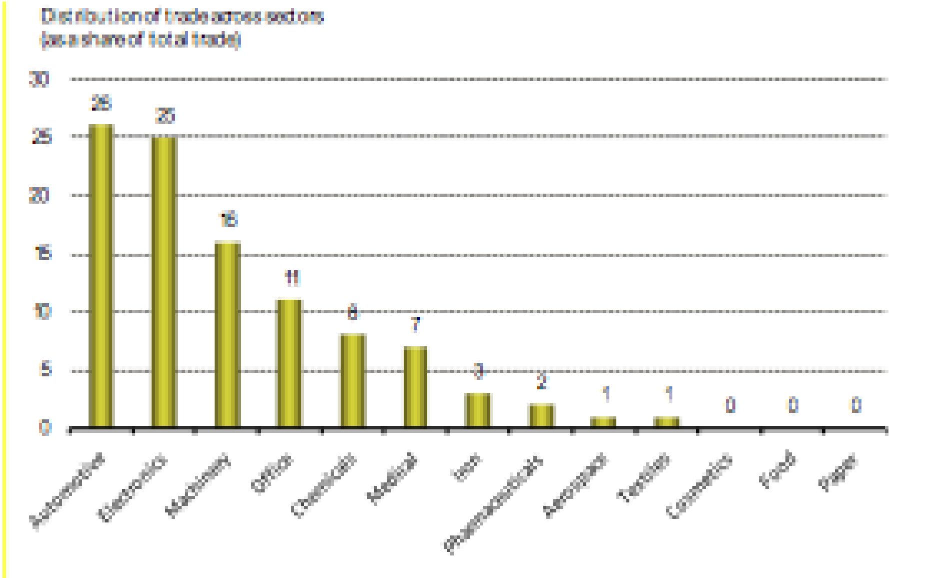
Source: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, pp. 18-19.

EU exports to Japan are broadly distributed across sectors.

EU imports from Japan are concentrated in a few sectors.



Note: Export in a particular sector is calculated as a share of the total value of export.
Source: Copenhagen Economics' calculations based on data from Eurostat.



Note: Import in a particular sector is calculated as a share of the total value of import.
Source: Copenhagen Economics' calculations based on data from Eurostat.

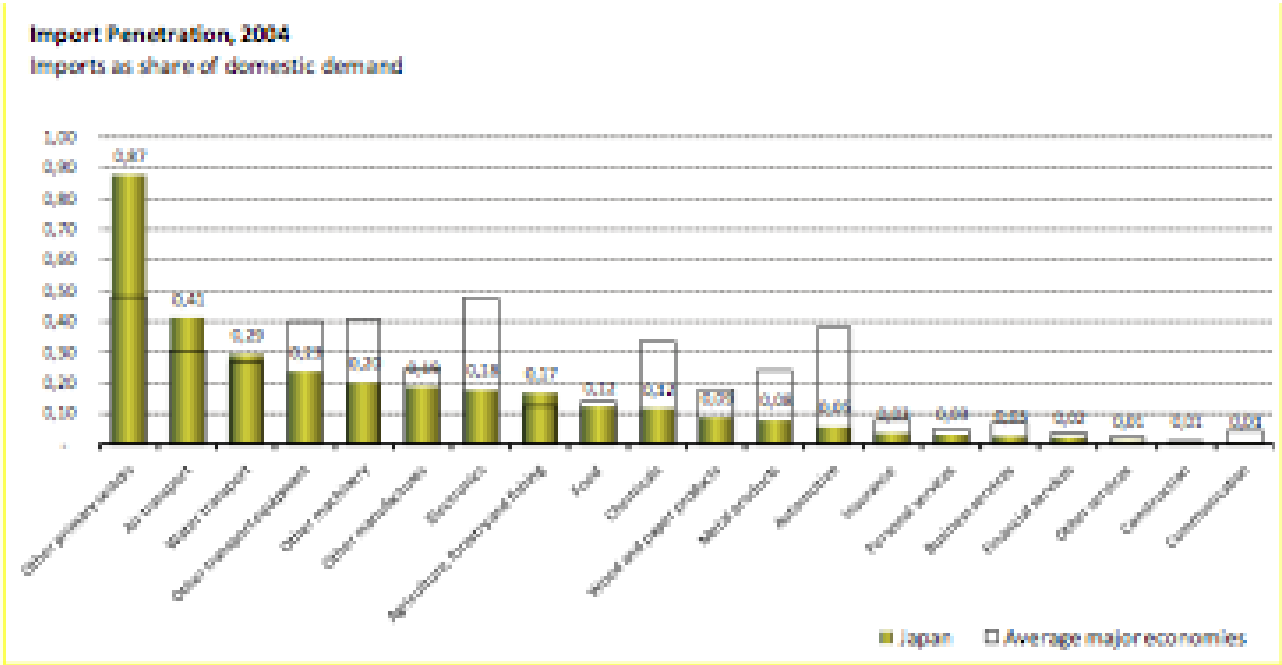
Source: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, pp. 25-26.

Resolve Lingering Issues

- ★ Non-tariff barriers (measures):
  - – Food additives (in progress since 2002)
  - – Organic food labeling (changed 2006)
  - – International standards
    - e.g. building materials, medical devices, financial services
  - – Regulatory transparency
  - – Certification procedures
- ★ Promote inward FDI (into Japan)
- ★ Tariffs

Japan's Imports : Domestic Demand

Japan lies below the average of major economies in most sectors.

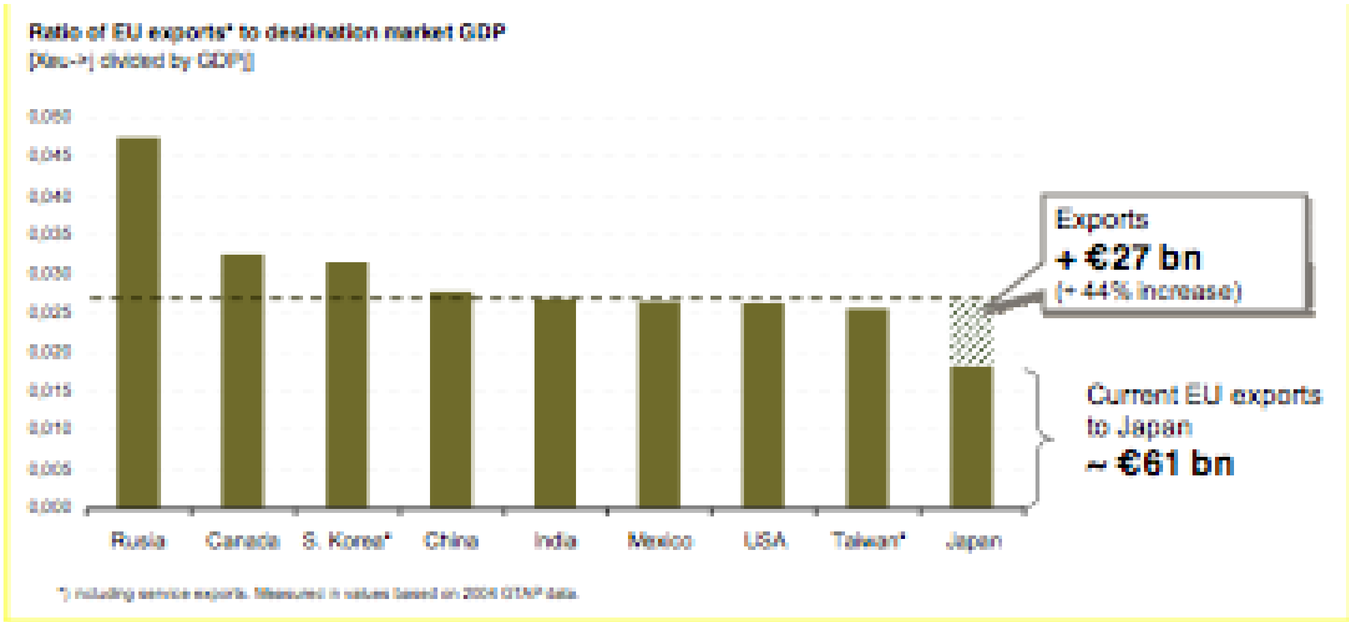


Note: Imports divided by domestic demand.
Source:Copenhagen Economics' calculations based on data from GTAP data.

Source: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, p. 22.

EU's Main Export Markets (Exports : GDP)

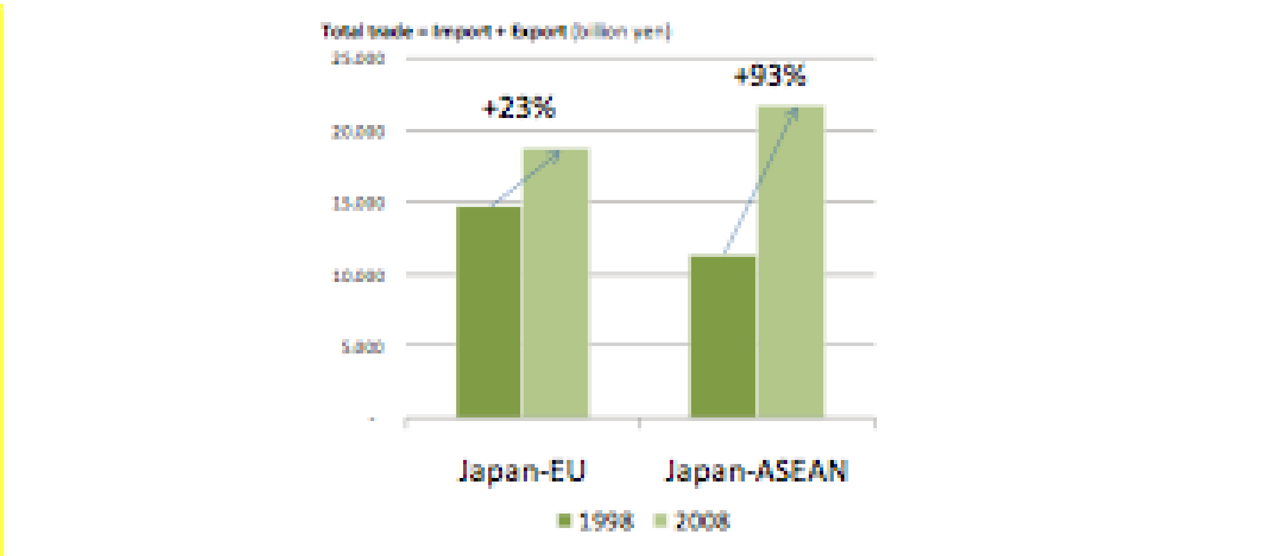
Elimination of tariffs and NTMs would make Japan's trade with EU more 'normal.'



Note: This penetration indicator is calculated as the ratio of EU exports to the destination market's GDP.
Source: Copenhagen Economics' calculations based on data from GTAP. See McDougall (2001) for more information about GTAP.

Source: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, p. 20.

Japan's total trade with ASEAN increased rapidly relative to trade with EU, 1998 & 2008



Source: Own calculations based on data from trade statistics of Japan, Ministry of Finance.

Source: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, p. 24.

Preoccupations vs. Progress

- Focus on order of agreements incorrect
  - ✓ Settle NTBs (NTMs)
  - ✓ Settle TBs
- Simultaneous settlement better
- Agreement to move forward… but minimal, progress, 2000-now
- Economic evidence: Balanced bi-lateral agreement could deliver results for both the EU and Japan (Sunesen, Francois and Thelle, 2009)
- Now what?

Webs of Relationships

- Intermediaries: Business-Labour-Government
  - Big business
  - Labour
  - Associations and foundations
  - Bureaucrats -- in-fighting
  - Politicians -- constituents
- Links among market-business-society layers
  - Quasi-business-government organizations
  - Patterns of influence
  - Lobbying

Unique & Uniform

- Companies in Japan are uniform
  - ‘Japan, Inc.’
  - Similar goals, practices, methods, etc.
  - Don’t do anything without the government
- Countries are unique ?
  - Flawed myth of Japanese uniqueness
  - Japan: Cozy business-government relations
  - EU: One country is the same as the next

Cases

- Approach
  - Historical structuralism
  - Structural power
- Government: top down (#1, 3)
- Consumers: bottom up
- Mixed forces (#2)
- Companies have common goals, artificially separated by borders.

Aerospace & Space Industry

- History: US military dominance in Japan (structural power)
- Japanese government (top down)
  - ✓ 'Procurement decisions are made on a non-competitive basis.'
  - ✓ 'Mutual Japanese and European export control procedures should be recognized.' (Sunesen, E.R., J.F. Francois, M.H. Thelle, 2009)
- Government-level agreement needed
- Military/security and thus sensitive

Source: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, p. .

Food Safety, Standards

- Japan's technical barriers vs. FAO/WTO CODEX Alimentarius Commission food standards
- 'No regulatory compliance with CODEX standards for:
  - ✓ 'organic crop imports,
  - ✓ 'safe food additives and
  - ✓ 'testing regimes for pre- and post-harvest pesticides.' (Sunesen, E.R., J.F. Francois, M.H. Thelle, 2009)
- Organics: lack of demand, thus not consumer (bottom up) issue?
- Environment affects all… domestic or global issue?

Telecommunications

- Service barriers:
  - ✓ ‘Unreasonably high interconnection fees in telecommunications.’
  - ✓ ‘Weak competitive safeguards against the abuse of dominance in telecommunications.’
  - ✓ ‘Lack of competition in markets for wire line and mobile inerconnection.’
  - ✓ ‘Absence of a clear separation between the Government’s roles as both owner and regulator in telecommunications.’ (Sunesen, E.R., J.F. Francois, M.H. Thelle, 2009)
- Non-traffic sensitive (NTS) interconnection charges
  - NTT carrier of traffic, others pay to use
  - Sunk cost of infrastructure
- Distribute sunk cost among users of system
- Distribute cost across society

Import Penetration in Selected Countries' Communiction Services Sectors, per cent

Country	Business services (percent)	Communication services (percent)	Financial services (percent)
India	38.1%	7.4%	7.0%
Mexico	30.0%	3.2%	4.4%
Russia	12.8%	10.1%	8.5%
Korea	10.1%	2.9%	1.5%
European Union	8.0%	7.5%	8.2%
Canada	7.9%	5.3%	4.9%
China	7.0%	1.5%	1.0%
Brazil	6.3%	1.3%	1.9%
United States	3.2%	1.6%	0.8%
Japan	2.6%	0.8%	2.2%

Note: Import penetration is calculated as imports as share of domestic demand. Intra-EU trade is excluded.
Source: Copenhagen Economics' calculations based on data from GTAP.

Source: Sunesen, E.R., J.F. Francois, M.H. Thelle (2009) "Assessment of Barriers to Trade and Investment between the EU and Japan: Final Report," Copenhagen Economics, November, p.6.

Beyond State-to-State Discussions

- Webs of interconnectedness
  - Case studies
  - Similarities across national borders
- Vertical -- in country, company
- Horizontal -- interest groups / parties
- Formal *and* informal structures of organization

Structures & Patterns of Organization

- Industry history, comparative
- Evolution over time
- Structure, competitiveness
- Similarities across borders
  - Companies not uniform
  - Countries not unique

Enter the Fox?

- Settle arguments now, not later
- Move forward pragmatically
  - Seek similarities, common ground
  - Horizontal linkages exist
  - Governments cannot solve everything
  - Business initiative with government support