

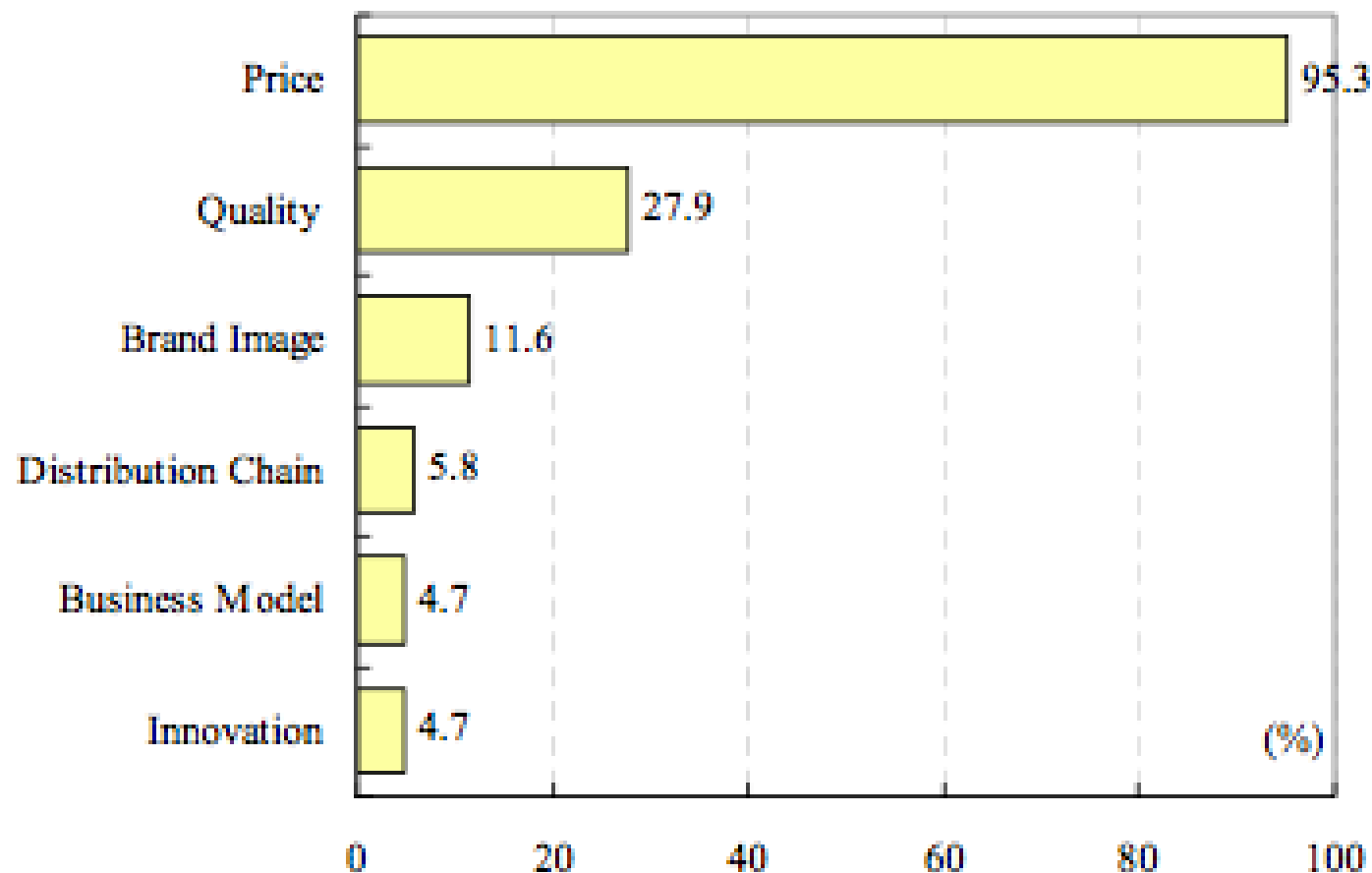
EU-Japan Economic and
Trade Relations:
What Impact of EU-Korea FTA
on Japan?

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Outline

- A Tale of Two Scribes
- EU-Korea FTA: Two-Pronged Effect
- FDI and Non-tariff Barriers
- A Common Strategy

Price is the Top Competitive Factor between Japanese and Korean Manufactured Products

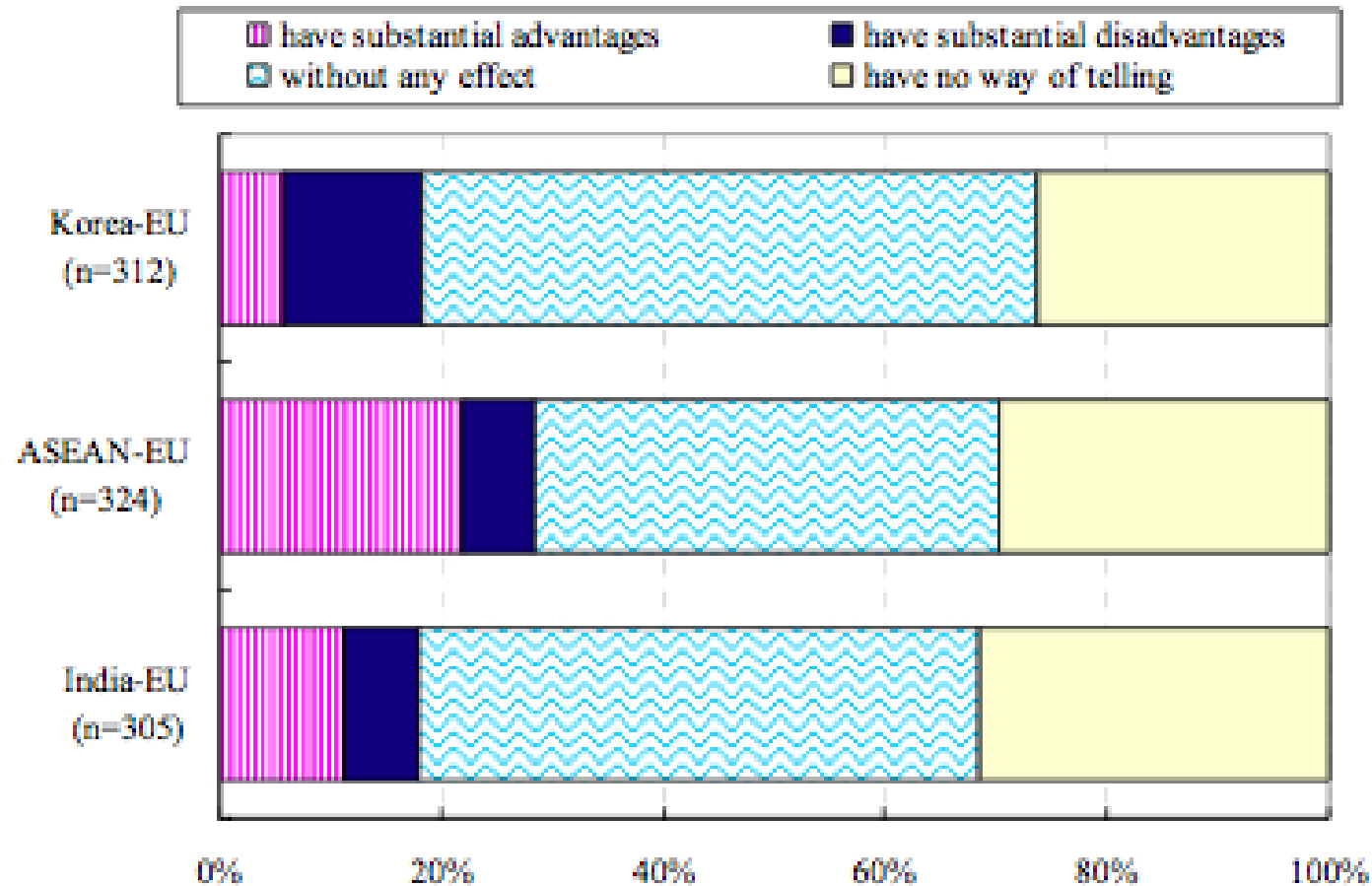


Note: N=86, multiple answers allowed

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 Expected to have Large 'Substantial Disadvantages'

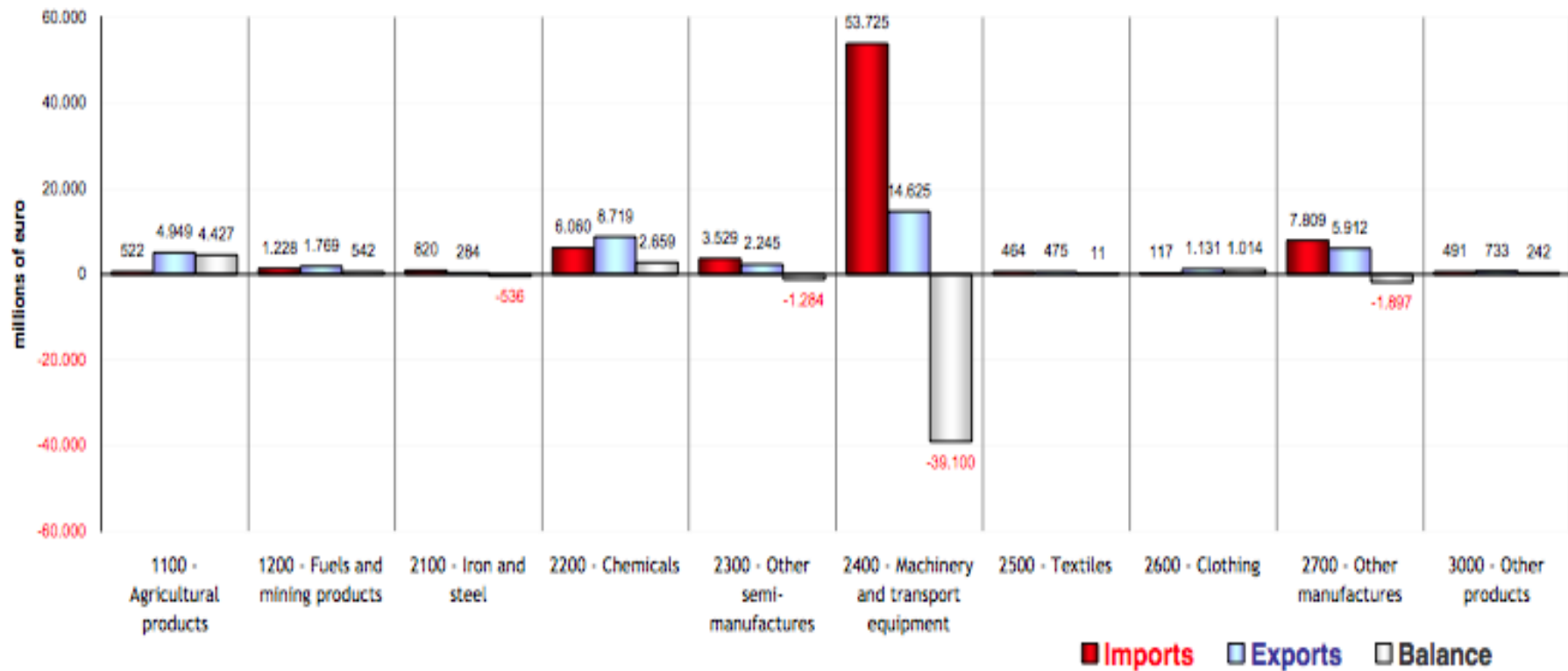


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EU Trade with Japan is Dominated by the Imbalance in Machinery and Transport Equipment

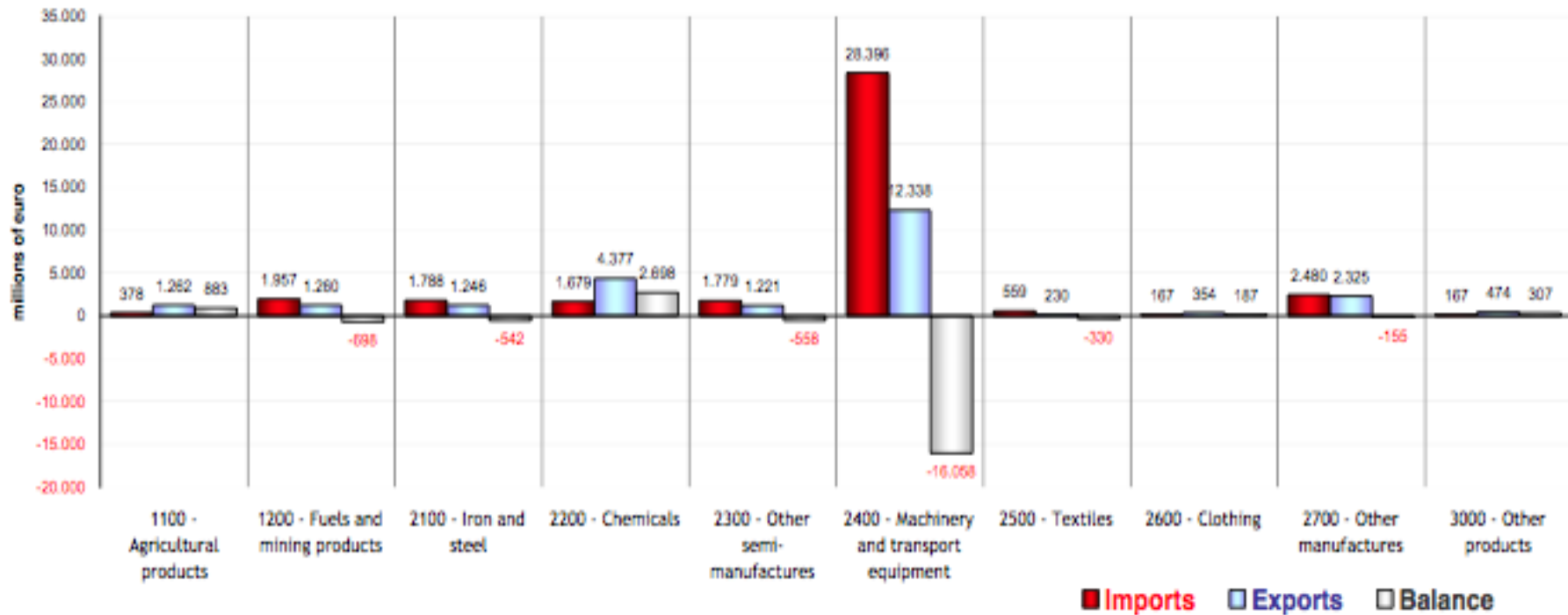
EU Trade with... Japan



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

EU Trade with Korea is Dominated by the Imbalance in Machinery and Transport Equipment

EU Trade with... South Korea



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

A Golden Moment?

★ Dual Impact of EU-Korea FTA

➔ Machinery & Transport Equipment

➤ Japanese affiliates operating in Europe

➤ EU-Japan bilateral trade

- 71.7% of EU's imports from Japan;
34.5% of Japan's imports from EU
- (72.1% of EU's imports from Korea;
48.1% of Japan's imports from EU)

★ EU + Japan = 40% global GDP

Top Trading Partners: EU, Japan, Korea 2008

EU: The Major Trade Partners

Rk	Partners	Mio euro	%
Extra EU27		2.861.807,6	100,0%
1	United States	435.995,5	15,2%
2	China	326.325,0	11,4%
3	Russia	278.770,2	9,7%
4	Switzerland	177.848,3	6,2%
5	Norway	135.736,0	4,7%
6	Japan	117.342,0	4,1%
7	Turkey	100.147,5	3,5%
8	South Korea	65.063,6	2,3%
9	Brazil	61.908,2	2,2%
10	India	60.980,2	2,1%

Japan: The Major Trade Partners

Rk	Partners	Mio euro	%
World		1.003.658,2	100,0%
1	China	182.665,9	18,2%
2	United States	148.216,1	14,8%
3	EU27	123.054,0	12,3%
4	South Korea	60.452,7	6,0%
5	Australia	43.947,7	4,4%
6	Saudi Arabia	39.936,2	4,0%
7	United Arab Emirates	39.201,3	3,9%
8	Thailand	34.199,6	3,4%
9	Indonesia	30.690,5	3,1%
10	Hong Kong	28.454,3	2,8%

Korea: The Major Trade Partners

Rk	Partners	Mio euro	%
World		560.103,7	100,0%
1	China	129.025,1	23,0%
2	EU27	64.097,1	11,4%
3	Japan	62.672,3	11,2%
4	United States	56.827,7	10,1%
5	Saudi Arabia	21.217,2	3,8%

Source: EU, "Japan: EU Bilateral Trade and Trade with the World," DG Trade, 22 September 2009, pp. 5-6; EU, "South Korea: EU Bilateral Trade and Trade with the World," DG Trade, 22 September 2009, p. 6.

Foreign Direct Investment and Intra-industry Trade

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

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.

Resolve Lingering Issues

- Non-tariff barriers:
 - 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)
- Open up competition in e.g. aircraft

A Common Strategy

