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

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Outline

• The Lion, the Bear & the Fox
• Current Issues
  o Korea-EU FTA
  o Overview: Barriers & Challenges
  o Preoccupations vs. Progress
• Structures and Patterns of Organization
  o Unique, Uniform
  o Webs of relationships
  o 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).

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

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

€-16,058 (2009)

**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: ...

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

## Overview: Barriers & Challenges

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

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

EU exports to Japan are broadly distributed across sectors. EU imports from Japan are concentrated in a few sectors.

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.

EU’s Main Export Markets (Exports : GDP)
Elimination of tariffs and NTMs would make Japan’s trade with EU more ’normal.’

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

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.’
• Government-level agreement needed
• Military/security and thus sensitive

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
- 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 interconnection.’
  ✓ ‘Absence of a clear separation between the Government’s roles as both owner and regulator in telecommunications.’

• Non-traffic sensitive (NTS) interconnection charges
  o NTT carrier of traffic, others pay to use
  o Sunk cost of infrastructure

• Distribute sunk cost among users of system
• Distribute cost across society
Import Penetration in Selected Countries’ Communication Services Sectors, per cent

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

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.

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