

TRADE DEVELOPMENT BETWEEN THE EUROPEAN UNION AND JAPAN
FROM 1995 TO 2008

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Abstract

The present paper is aimed to give an analysis of trade ties between the EU and Japan, and to focus on most important factors which have shaped their mutual trade from 1995 until 2008. The analysis leads to the conclusion that mutual trade ties are becoming less and less important in the system of economic relations of the European Union and Japan. Despite the fact that after the year 1995 there have been relatively good conditions for the development of trade relations, the share of Japan in the aggregate volume of EU's exports and imports has decreased, and, what is more, the EU has become a less important supply and demand market for Japan. The regression of mutual trade ties is a consequence of many factors, of which the most important are: globalization of economic activity; strong regionalization tendencies in the world economy as well as the EU's and Japan's trade policies towards Asian countries.

Key words: economic globalization, economic regionalization, economic relations, European Union, foreign trade, Japan, trade policy

JEL classification: F1, F5

1. Introduction

Since the mid 1990s, international trade has been developing dynamically. The finalization of the GATT's Uruguay Round, a good overall economic situation in the world and increasing importance of Asian countries to an international division of labor have created good conditions for trade development in the world. The value of world's exports has increased due to traditional exporters, i. e. the United States, the European Union and Japan, among others. Since the beginning of the 1970s, trade and investment ties between these three centers have formed a base for global economic interconnections, while their range and intensity have made the triad dominate in the system of the world economy. As a consequence, economic ties (including trade ties) between the European Union and Japan have traditionally been perceived as the most important ones. The great significance of trade links between the EU and Japan has been brought about by a high potential of their economies, the size of their markets, and the role in the global trade and investments. The phenomena and processes which have taken place in the world economy since the beginning of the 1970s have shaped the world's economic balance of power, and at the same time have

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changed the character of relations between the EU and Japan. The changes were easy to be seen in the middle of the 1990s, and now one may witness a new situation, in which trade ties of the EU with Japan are systematically weakening.

The main goal of the article is to analyze the trade between the European Union and Japan and, at the same time, to name the most important factors influencing trade relations between partners in the period of 1995-2008. In order to fulfill these aims, the study makes use of an analytical/descriptive method.

2. Development of trade relations between the European Union and Japan

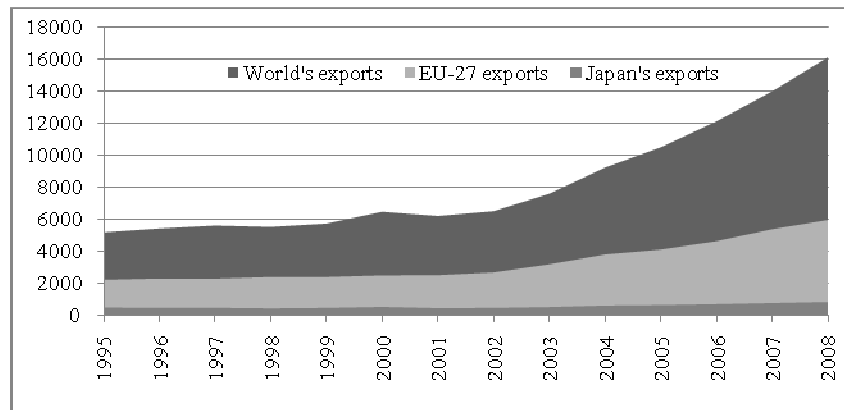
From 1995 to 2008 international trade has been developing dynamically. According to data showed in Table 1 (see also Fig. 1), the value of exports has grown from 5,2 billion to 16,1 billion USD. In the entire period under scrutiny the dynamics of world's exports have been high, and only two years (1998 and 2001) have shown negative figures. Similar tendencies have occurred in the EU's and Japan's trade. The dynamics of export value has also been high but smaller than the average dynamics of the world's export. This means that a share of the European Union as well as Japan in the world's exports has been shrinking. In the years 1995-2008 a share of the EU has lowered from 42,2% to 36,7%.¹ In the case of Japan, a fall of its significance in world's exports is particularly visible, as one may see a drop here from 8,6 to 4,9%.

Table no.1 – Value and dynamics of trade for: world, EU-27 and Japan in the years 1995–2008, bln USD and %

Year	World				EU-27				Japan			
	Value		Dynamics		Value		Dynamics		Value		Dynamics	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
1995	5164	5284	19,4%	19,3%	2180,0	2169,3	22,7%	21,8%	443,1	335,9	11,6%	22,0%
1996	5403	5546	4,6%	5,0%	2257,3	2238,4	3,5%	3,2%	410,9	349,2	-7,3%	4,0%
1997	5591	5739	3,5%	3,5%	2250,8	2236,6	-0,3%	-0,1%	421,0	338,8	2,4%	-3,0%
1998	5501	5683	-1,6%	-1,0%	2354,7	2373,2	4,6%	6,1%	387,9	280,5	-7,8%	-17,2%
1999	5712	5921	3,8%	4,2%	2357,0	2419,1	0,1%	1,9%	417,6	310,0	7,7%	10,5%
2000	6456	6727	13,0%	13,6%	2452,6	2579,9	4,1%	6,6%	479,2	379,5	14,8%	22,4%
2001	6191	6485	-4,1%	-3,6%	2469,5	2549,4	0,7%	-1,2%	403,5	349,1	-15,8%	-8,0%
2002	6493	6745	4,9%	4,0%	2637,6	2672,1	6,8%	4,8%	416,7	337,2	3,3%	-3,4%
2003	7586	7865	16,8%	16,6%	3148,9	3214,2	19,4%	20,3%	471,8	382,9	13,2%	13,6%
2004	9222	9571	21,6%	21,7%	3762,5	3854,5	19,5%	19,9%	565,7	454,5	19,9%	18,7%
2005	10493	10857	13,8%	13,4%	4065,9	4222,3	8,1%	9,5%	594,9	515,9	5,2%	13,5%
2006	12124	12429	15,5%	14,5%	4592,5	4830,9	13,0%	14,4%	646,7	579,1	8,7%	12,3%
2007	13998	14270	15,5%	14,8%	5335,5	5599,0	16,2%	15,9%	714,3	622,2	10,5%	7,5%
2008	16127	16415	15,2%	15,0%	5913,0	6268,4	10,8%	12,0%	782,3	762,0	9,5%	22,5%

Attention: exports and imports of the EU -27 cover intra-EU flows.

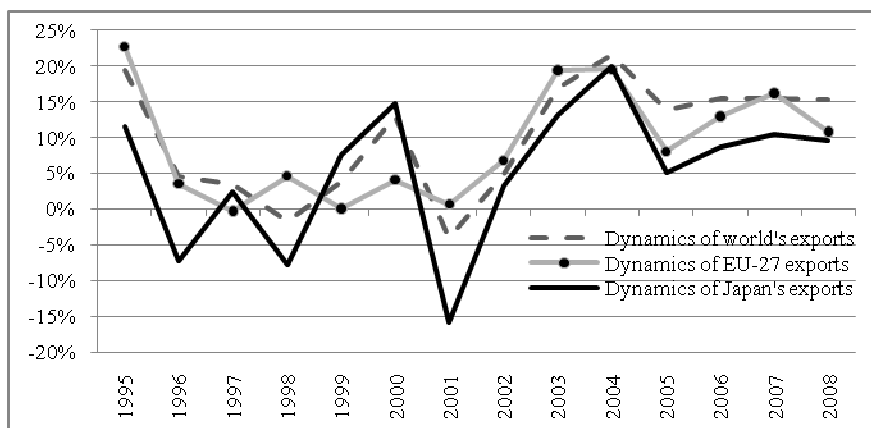
Source: [WTO Statistic Database, 2009].



Source: Own preparations based on data from Table no. 1.

Figure no. 1. Exports of: world, EU-27 and Japan in the years 1995-2008, bln USD

Fig. 2 showing the dynamics of exports for the world economy, the EU and Japan, confirms the fragile situation of Japan. In this case an amplitude of fluctuations is bigger than that of the world and the EU. In the period under scrutiny the value of Japan's exports has fallen by threefold in comparison to the previous year, and reached the bottom in 2001 (-15,8%).



Source: Own preparations based on data from table no. 1.

Figure no. 2. Dynamics of exports for: world, EU-27 and Japan in the years 1995-2008, %

In the background of these general tendencies in the international trade, one may present an analysis of a merchandise trade between the EU and Japan in the years 1995-2008. The EU's exports to Japan (denominated in U.S. dollars) grew from 49,4 to 69,9 bln USD, and on the import's side from 71,8 to 109,4 bln USD. As there have been differences in the the pace of growth in terms of exports and imports, a negative trade balance has grown. The appropriate data illustrating the trade of the UE with Japan are shown in table 2.

Table no. 2 – Value, dynamics and trade balance of the EU with Japan in the years 1995–2008, bln USD and %

	Exports	Imports	Balance	Exports' Dynamics	Imports' dynamics
1995	49,4	71,8	-22,3	25,1%	14,6%
1996	50,0	64,3	-14,3	1,1%	-10,4%
1997	45,7	67,4	-21,6	-8,5%	4,8%
1998	39,7	73,4	-33,6	-13,1%	8,9%
1999	43,4	76,4	-33,0	9,2%	4,1%
2000	47,7	80,6	-32,9	9,9%	5,4%
2001	45,5	66,6	-21,1	-4,6%	-17,3%
2002	44,9	64,0	-19,1	-1,4%	-3,9%
2003	50,1	75,7	-25,6	11,7%	18,4%
2004	58,0	89,3	-31,3	15,7%	18,0%
2005	58,8	87,9	-29,0	1,4%	-1,6%
2006	60,1	94,2	-34,2	2,1%	7,2%
2007	65,0	105,3	-40,3	8,2%	11,7%
2008	69,9	109,4	-39,5	7,5%	3,9%

Source: [SourceOECD, 2007; JETRO, 2007; JETRO, 2008]

The most important conclusion drawn from an analysis of tables 1 and 2 are as follows:

- 1) Despite the growth in the value of trade of the EU with Japan, in some years of the period, there was an phenomenon of exports and imports drop. A pace at which economic ties between the EU and Japan may be said to have been strengthened was relatively low, especially in comparison to the entire trade volume of the partners.
- 2) Because of the lower pace of growth of exports and imports in the trade of the UE with Japan, and Japan with the EU, the significance of their mutual economic partnership has diminished. In the years 1995-2008 Japan's share in total EU's exports has dropped from 2,7% to 1,1%, and in imports from 3,3% to 1,7%.ⁱⁱ In the case of Japan we can find quite a similar analogy. In 2008 the EU's share in Japan's exports and imports dropped to 13,9% and 9,1%, respectively.
- 3) The advantage of Japan's exports to the EU over its imports, which has been a characteristic of their trade relations since the end of the 1960s, is also a distinctive feature of trade ties in the researched period. A total trade deficit of the EU with Japan has grown from 22,3 bln USD in 1995 to 39,5 bln USD in 2008.
- 4) A share of trade between the European Union and Japan in the entire international trade has dropped, which is a consequence of lower dynamics of their mutual trade in comparison with the world's trade.

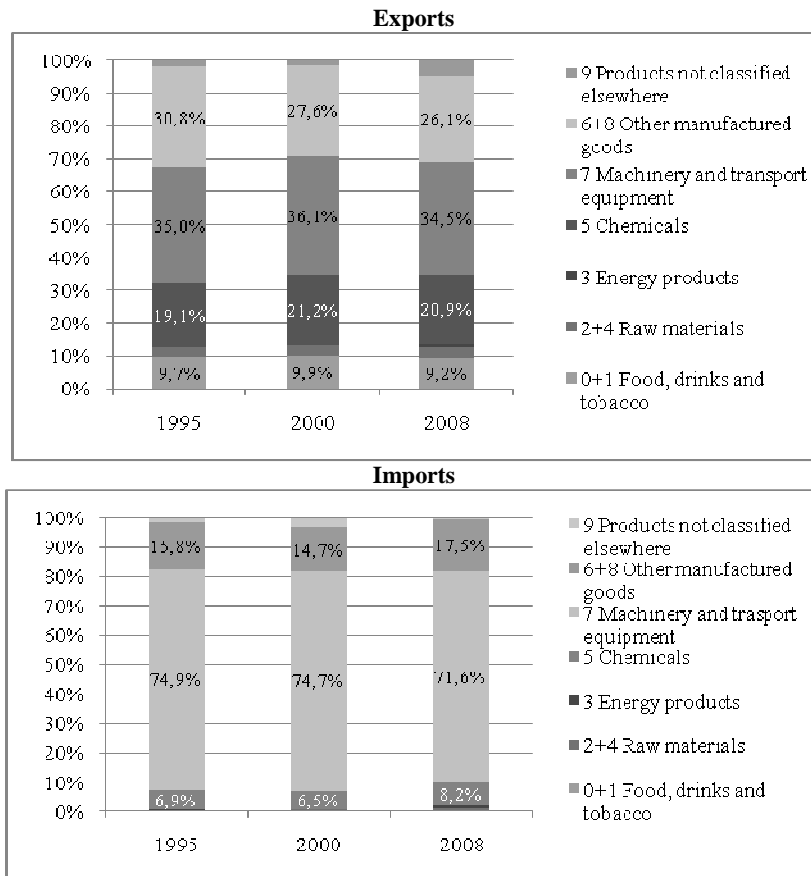
Our analysis of the EU's trade with Japan in the years 1995-2008 points to the stability of trade relations seen in the product breakdown (see Table no. 3). Changes which have taken place are low in size and scope. What the European Union has been exporting to Japan is mainly machinery and transport equipment (35-37%), other manufactured goods (26-31%), chemicals (19-21%) and food, drinks and tobacco (9-10%). Products from other groups turn out to be insignificant to their mutual trade.

Table no. 3 – Product breakdown of the EU's trade with Japan in the years 1995–2008, %

SITC	1995		2000		2008	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
0+1 - Food, drinks and tobacco	9,7%	0,1%	9,9%	0,1%	9,2%	0,2%
2+4 - Raw materials	3,2%	0,5%	3,4%	0,5%	3,3%	0,9%
3 - Energy products	0,1%	0,1%	0,1%	0,0%	1,2%	0,9%
5 - Chemicals	19,1%	6,9%	21,2%	6,5%	20,9%	8,2%
7 - Machinery and transport equipment	35,0%	74,9%	36,1%	74,7%	34,5%	71,6%
6+8 - Other manufactured goods	30,8%	15,8%	27,6%	14,7%	26,1%	17,5%
9 - Products not classified elsewhere	2,1%	1,7%	1,7%	3,4%	4,8%	0,7%

Source: Own calculations based on: [SourceOECD, 2007; European Communities, 2009, 60-62].

The product breakdown of the EU's imports from Japan is dominated by group SITC 7 (machinery and transport equipment) which accounts for nearly $\frac{3}{4}$ of total EU's imports from Japan. As shown by the data, other manufactured goods account for a relatively high share of imports (15-17%), while chemicals amount to a much more modest share (6-8%).



Source: Data from table no. 3.

Figure no. 3. Product breakdown of the EU's trade with Japan in the years 1995–2008, %

The short characteristics of the product breakdown of the mutual trade between the EU and Japan presented above show differences in export offer of Japanese and European enterprises. More technologically advanced products, which bring more profits, are located mainly in SITC 7 group (machinery and transport equipment), and for this reason the dominant position of the group in Japan's exports to the EU must have influenced the trade cooperation between the countries. This observation is also confirmed by data describing exports and imports of Japan in relation to individual EU's member countries (see Table no. 4).

The strongest economies appear to be the most important trade partners of Japan in the European Union. Germany holds the first position, because its share in total Japan's exports to the EU was at the level of 21%, and in total imports at 30%. Next positions belong to United Kingdom, Netherlands and France (in exports), and to France, Italy and United Kingdom (in imports).

Table no. 4 – Trade of Japan with the EU's member countries in the years 1995–2008, mln USD and %

	Exports				Imports				Balance	
	1995		2008		1995		2008		1995	2008
	mln USD	%	mln USD	%	mln USD	%	mln USD	%	mln USD	mln USD
Austria	1 199	1,7	1 239	1,1	910	1,8	1 544	2,2	288	-305
Belgium*	4 883	6,8	8 415	7,7	2 394	4,8	2 047	2,9	2 489	6 368
Bulgaria	16	0,0	139	0,1	32	0,1	56	0,1	-16	83
Cyprus	270	0,4	719	0,7	3	0,0	23	0,0	267	697
Czech Republic	142	0,2	2 992	2,7	116	0,2	523	0,7	25	2 470
Denmark	915	1,3	727	0,7	1 923	3,9	2 428	3,5	-1 008	-1 701
Estonia	10	0,0	98	0,1	14	0,0	63	0,1	-4	35
Finland	1 389	1,9	2 325	2,1	1 157	2,3	1 891	2,7	232	434
France	6 174	8,6	8 922	8,2	6 682	13,5	10 561	15,1	-508	-1 639
Germany	20 363	28,4	23 796	21,8	13 728	27,8	20 702	29,6	6 636	3 093
Greece	658	0,9	1 211	1,1	105	0,2	101	0,1	553	1 110
Hungary	350	0,5	2 599	2,4	125	0,3	717	1,0	225	1 882
Ireland	2 091	2,9	1 268	1,2	1 979	4,0	4 133	5,9	112	-2 864
Italy	4 085	5,7	6 754	6,2	6 363	12,9	7 897	11,3	-2 278	-1 144
Latvia	3	0,0	64	0,1	9	0,0	35	0,0	-6	30
Lithuania	5	0,0	96	0,1	41	0,1	29	0,0	-37	67
Luxembourg*	-	-	176	0,2	-	-	43	0,1	-	132
Malta	42	0,1	212	0,2	10	0,0	187	0,3	32	25
Netherlands	9 949	13,9	20 923	19,1	2 187	4,4	3 790	5,4	7 762	17 133
Poland	169	0,2	1 962	1,8	84	0,2	477	0,7	85	1 485
Portugal	727	1,0	759	0,7	222	0,4	219	0,3	504	541
Romania	43	0,1	445	0,4	58	0,1	216	0,3	-15	229
Slovakia	14	0,0	460	0,4	26	0,1	215	0,3	-12	245
Slovenia	45	0,1	225	0,2	32	0,1	49	0,1	14	175
Spain	2 396	3,3	4 363	4,0	1 510	3,1	2 487	3,6	886	1 876
Sweden	1 700	2,4	2 183	2,0	2 585	5,2	2 072	3,0	-885	111
United Kingdom	14 123	19,7	16 309	14,9	7 135	14,4	7 410	10,6	6 989	8 899
EU-27	71 760	100	109 383	100	49 430	100	69 915	100	22 330	39 468

* – Data for Belgium in 1995 cover exports and imports of Luxembourg.

Source: [SourceOECD, 2007, JETRO, 2008]

Data from table no. 4 synthetically point to an advantage of Japan in its trade relations with the European Union. In 2008 Japan had trade surpluses with 22 from 27 EU's countries and deficits with only 5. The characteristic feature of Japan's trade with the European Union is the fact that overall surplus with the EU is derived from surpluses realized with the strongest economies. In 2008 as much as 89,9 % of the total surplus with the EU-27 was a consequence of surpluses with only four countries: Netherlands (17,1 bln USD), United Kingdom (8,9 bln), Belgium (6,4 bln) and Germany (3,2 bln).ⁱⁱⁱ

3. Factors of trade development between the European Union and Japan^{iv}

3.1. The world economic situation

The description of the European Union's trade with Japan presented above allows us to observe that in the period 1995-2008 mutual trade ties of both triad powers have weakened. In the years analyzed the most important factors influencing trade relations between the EU and Japan were as follows: 1) the overall situation in the world economy; 2) multilateral trade liberalization; 3) economic situation in the EU and Japan; 4) changes in the EU's trade policy towards the Asian region; 5) global and regional policy of Japan; 6) intensification of an economic dialogue between the EU and Japan.

In the period of 1995-2008 the situation in the world economy was favourable. Table no. 5 presents indicators describing the condition of the world economy (real GDP growth, industrial production growth, real exports growth). Based on these data it may be stated that the second half of the 1990 and the period after the year 2002 were times of economic prosperity in the world. International trade developed at the pace exceeding the rate for world's industrial production and GDP. Due to such a situation there was an intensification of the international division of labor and trade has been becoming an increasingly important factor in the shaping of the global economic situation.

Table no. 5 – Changes in world's real: GDP, industrial production and exports in the years 1995–2007, %

Year	GDP	Industrial production	Exports
1995	2,3	4,6	7,4
1996	3,3	3,5	5,1
1997	3,4	4,9	10,1
1998	2,1	2,2	4,6
1999	2,9	3,1	4,6
2000	4,2	5,2	10,8
2001	1,5	-1,0	-0,2
2002	1,8	1,4	3,5
2003	2,6	3,5	5,7
2004	3,9	5,1	9,7
2005	3,2	3,2	6,4
2006	3,7	3,2	8,4
2007	3,4	3,9	5,9

Source: [WTO, 2008, 174].

Within the fourteen years, there was only one economic slowdown – in the years 2001-2003. The dynamics of the world's GDP dropped to 1,5% in 2001 (in comparison to 4,2% in

the previous year), the volume of industrial production dropped by 1%, and exports dropped by 0,2%. A weaker economic situation at the beginning of 21st century does not change a general positive assessment of the state of the world economy. But it should also be underlined that, despite the generally good condition, in the years analyzed, the economic situation has shown fluctuations typical of a market economy. It varied depending on continents and countries. Table no. 6 presents detailed data describing changes in the most important centers of the world economy in the years 1995-2010.

Table no. 6 – Main economic indicators of the U.S., Japan and Euro area in 1995-2010, %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*	2010*
	Real GDP growth															
USA	2,5	3,7	4,5	4,2	4,4	3,7	0,8	1,6	2,5	3,6	2,9	2,8	2,0	1,1	-2,8	0,9
Japan	2,0	2,7	1,6	-2,0	-0,1	2,9	0,2	0,3	1,4	2,7	1,9	2,0	2,3	-0,7	-6,8	0,7
Euro area	2,5	1,5	2,6	2,7	2,9	4,0	1,9	0,9	0,8	1,9	1,8	3,0	2,6	0,5	-4,8	0,0
	Labor productivity growth															
USA	0,2	1,8	2,1	1,9	2,4	1,9	0,9	2,8	2,5	2,6	1,3	1,0	1,1	1,7	0,6	0,9
Japan	1,9	2,3	0,5	-1,4	0,7	3,1	0,7	1,5	1,6	2,5	1,5	1,6	1,9	-0,3	-5,4	1,8
Euro area	1,8	0,8	1,8	0,9	0,9	1,5	0,3	0,2	0,4	0,9	0,7	1,4	0,8	-0,4	-2,3	2,5
	CPI															
USA	2,8	2,9	2,3	1,5	2,2	3,4	2,8	1,6	2,3	2,7	3,4	3,2	2,9	3,8	-0,6	1,0
Japan	-0,1	0,0	1,7	0,7	-0,3	-0,5	-0,8	-0,9	-0,2	0,0	-0,6	0,2	0,1	1,4	-1,4	-1,4
Euro area	3,0	2,3	1,7	1,2	1,1	2,1	2,4	2,3	2,1	2,2	2,2	2,2	2,1	3,3	0,5	0,7
	Unemployment															
USA	5,6	5,4	4,9	4,5	4,2	4,0	4,8	5,8	6,0	5,5	5,1	4,6	4,6	5,8	9,3	10,1
Japan	3,1	3,4	3,4	4,1	4,7	4,7	5,0	5,4	5,3	4,7	4,4	4,1	3,9	4,0	5,2	5,7
Euro area	10,4	10,5	10,5	9,9	9,2	8,2	7,7	8,1	8,6	8,8	8,8	8,2	7,4	7,5	10,0	12,0

Attention: * Forecast.

Source: [OECD Economic Outlook No. 85 Database].

Economic conditions in main economic centers of the world between 1995 and 2000 can be characterized as follows [Pasierbiak, 2008, 209]:

- 1) In the United States there was a good economic situation: the rate of GDP growth was higher than in the Euro area and Japan (till 1999); the inflation rate was dropping (till 1998), so was the unemployment rate (till 2000).
- 2) The economic condition of the Euro area was relatively good: there was a positive GDP growth, inflation and unemployment rates were dropping.
- 3) In Japan there was a relatively deep deterioration of the economic situation. GDP growth was low and within the years 1998-1999 the economy even entered a recession, when GDP shrank by 2% (1998) and 0,1% (1999). Deflation and growing unemployment deteriorated the situation.

Basing on the indicators presented in table no. 6 and evaluating the condition of the world economy, we can say that the second half of the 1990 was a period of relatively good

economic situation. At the turn of the 21st century the situation changed. In 2001 in all three centers of the world the pace of GDP growth has fallen: in the U.S. to 0,8% (from 3,7% in the previous year), in the Euro area to 1,9% (from 4%) and in Japan to 0,2% (from 2,9%). A recovery started first in the United States (yet in 2002 the GDP growth was at the level of 1,6%), then in Japan (in 2003 the GDP grew by 1,4%), and at the end in the Euro area (in 2004 the rate of GDP growth achieved 1,8%). In 2005 and 2006 there was a drop in GDP growth in the U.S., in 2006 in Japan, but there was an improvement in the Euro area. In 2007 there were first symptoms of crisis which at first became visible solely in the United States. In the following years most developed countries entered into a phase of a conjunctural economic cycle, and the falls of GDP were deepest since the World War II [OECD, 2009, 11]. An instability in financial markets, a crisis in real estate markets and high prices of raw materials make the projections for 2009-2010 hardly optimistic. One can observe a slight improvement in the situation but there is no certainty of its durability. In an OECD forecast, after the worst year 2009, in 2010 the U.S. and Japan will achieve a positive pace of GDP growth.

From the world trade development point of view, the entire period 1995-2008 should be recognized as favorable. Regardless of conjunctural shocks in the world economy (2001-2003, 2008-), since the year 2002 world's exports have been growing with the higher pace than world's GDP and world's industrial production [WTO, 2008, 174]. As a consequence, the significance of trade as a factor responsible for shaping the economic situation in the world has grown.

3.2. Multilateral trade liberalization

Since the second half of the 1990 the international trade has considerably been determined by multilateral trade negotiations running at the GATT and WTO. In 1994 the GATT's Uruguay Round was completed and so far it has been the most complex international trade agreement reached during multilateral negotiations. The agreement concerns many aspects of trade, and the implementation of its resolutions has contributed to the deepening of a trade liberalization process. Regulations of former GATT and current WTO (World Trade Organization) have established a general framework which governs bilateral relations between member countries. It is in this context that one needs to bear in mind the results of the Uruguay Round for trade relation of Japan with the European Union.

Seen from the perspective of the EU and Japan trade relations, all resolutions of the Uruguay Round were not equally important. A tariffs reduction for industrial products had little influence on mutual trade. Before the Round both sides had low tariffs and this is why they were not the most important barrier in mutual trade development. After the negotiation, an average tariff in Japan was 1,7% and 3,6% in the European Union [Kawecka-Wyrzykowska, 1994, 9]. What was much more important for trade and general economic relations of Japan with the EU, was a ban on non-tariffs measures. The main instruments in this field were: countervailing fees which were used by the EU in reference to Japan's agriculture products, voluntary exports restraints, which were set by Japan and orderly marketing agreements (OMA), negotiated between the EU and Japan. Because a share of agriculture products in the total of Japanese exports to the EU was not high (see Table no. 3 and Fig. 3), a tariffication of countervailing fees did not cause a considerable change in this group's share in total exports of Japan. The Agricultural Agreement had a similar significance. The most important factor was a formal elimination of OMA and voluntary exports

restraints. For Japan it not only had it a symbolic meaning but also a practical consequence. For years Japan has been honoring “voluntary” obligations to its exports both to the United States and the European Union. Another important resolution was an adoption of codes concerning technical aspects of trade. If it is not tariffs that create the most important barriers to trade development, uniformity of rules governing trade relations may be seen as having a higher importance for the development of trade exchange. Already during the negotiations the EU stressed that an implementation of the Uruguay Round resolutions would contribute to a specification of some regulations (e.g. concerning license quotas) and to an elimination of barriers in a free access to the Japanese market in government procurement or standards (sanitary and phytosanitary among others) [COM, 1995, 9]. A similar significance to the trade relations was achieved by establishing regulations in such areas of international flows as services, an intellectual property or trade related investment measures.

After the success of the Uruguay Round, it was hoped that multilateral liberalization would keep its pace. As it turned out, it was an overoptimistic approach. Attempts to start a new round of negotiations were made several times but when it was finally agreed on (not until November 2001), there are no still signs of its quick finalization. Dates of negotiations' ends which have been set (January 1st, 2005; December 31st, 2006; December 31st, 2008) have not been fulfilled. Problems with a completion of negotiations are consequences of: firstly, too general formulations of goals, secondly, different aims of negotiations' participants and thirdly, growing determination of developing countries in acting in their interests [Pasierbiak, Kušpit, 2005, 223]. A lack of progress in multilateral trade liberalization for fifteen years now is a sign of a crisis in the WTO, and if there is no perspective of liberalization, there are no good conditions for development of economic ties in the world.

3.3. Economic situation in the European Union and Japan

In the second half of the 1990s the economic situation in the European Union was good. According to the Eurostat an average pace of real GDP growth was 2,8%, that of CPI index 1,7%, and one of the biggest problem was a high unemployment rate [European Community, 2008, 211-212]. A conjunctural deterioration began at the beginning of the 21st century, when the dynamics of GDP growth have dropped to 2,1% (2001), 1,4% (2002) and 1,6% (2003).

Since 2004, simultaneously with the eastern enlargement of the EU, the dynamics of GDP have been differentiated, but still they remain quite high. According to latest Eurostat's forecasts, in 2009 there will be a drop in the EU-27's GDP by -4,0%, and in 2010 by 0,1%. [European Community, 2009, 211]. Since 2000 unemployment in the UE has been shrinking and the unemployment rate has been fluctuating between 7,2 and 9%. Since 2005 there has been a successive fall of unemployment but in 2009 and 2010 it is forecast to grow. Inflation was not a problem for the EU's economy as a CPI was at the stable level of 2%. The most problematic area for the EU can be characterized by total factor productivity (TFP)^v. A low pace of factors productivity growth in the EU (in comparison with the U.S.) was a consequence of different areas of investment into capital: the United States invested in ICT capital, and the EU invested in more conventional one. Since the middle of 2005 there was an improvement in TFP indicator but it was a result of influence of rather cyclical than structural factors. In the next years a slowdown in the TFP's growth rate is forecast (0,3% in 2008 in 2009) [Pasierbiak, 2009].

In the period of 1995-2008 there was a diversity in an economic situation in Japan. Until the beginning of the 21st century the state of the economy was generally bad. Since the bursting of “the bubble” at the stock exchange and at the real estate market at the beginning of the 1990s, Japan has entered a period of slow economic growth, which can be characterized by an excess of production capacity, a lack of confidence on the part of households and enterprises to perspectives of economic growth, which partly results from uncertainty in the labor market and partly from the necessity to restructure the growing public debt [IMF, 1999, 81]. As a consequence of the stock market collapse, there has been a drop in corporate investments which is the factor behind lower economic growth and also a threat to the existence of the banking system. A crisis in the banking system was fully revealed in 1997. In order to improve the economic condition, the Japanese government made use of fiscal and monetary policy instruments but it is now acknowledged that the initiatives undertaken were not appropriate. Both stabilization programs and “zero” monetary policy did not yield good results.^{vi} At the beginning of 1997 it seemed that since fiscal stimuli had been used in the previous year, the economy would recover. Yet a premature and radical turnaround in the fiscal policy together with an instability of the entire financial system coupled by the onset of the Asian crisis caused an unprecedented drop in industrial output in the entire modern history of developed countries. Between the beginning of 1997 and the end of 1998 production fell by 5,5% [IMF, 1999, 81]. The country entered into economic recession, and the real GDP growth had even fallen to negative values (-2% in 1998 and -0,1% in 1999). A low GDP growth lasted till 2003. Economic recovery, which was visible in 2002, was the longest in Japan’s post-war history [OECD, 2008, 23]. The upturn was driven by acceleration of productivity growth promoted by progress in structural reform and by dynamic growth of business investment. Factors which were favorable to investment were the restructuring of the corporate sector, the improved financial soundness of the banking sector and the acceleration in export growth, which boosted corporate profitability and consequently encouraged greater business investment [OECD, 2008, 25]. According to the OECD data, in the years 2002-2007 the export growth accelerated to nearly 10% on average [OECD, 2008, 25]. Exports have been sustained by Japan’s increasing dependence on Asian economies. An additional factor which was favourable to the development of trade was a significant decline in the value of the yen between 2005 and mid-2007.^{vii} The economic crisis, which touched Japan in 2008, caused a deterioration in GDP forecasts. The latest OECD projections indicate that real GDP will decrease in 2009 by 6,4%, and only in 2010 there will be a slight growth by 0,7% [OECD Economic Outlook, 2009, 94].

3.4. Changes in EU’s trade policy towards the Asian region

In the 1990s there was a change in the EU’s policy towards Asia. It took place because it was necessary to adjust its approach to changing conditions in the world economy: 1) the size of Asian market and its growth potential created new opportunities for enterprises from the EU; 2) activities of rivals from the United States caused concerns about marginalization of EU’s enterprises^{viii}; 3) contrary to relations of the United States with Asia and of the European Union with the U.S., there were no institutional connections between the European Union and Asia. Bonds between Europe and Asia were the weakest chain link in the triad.

In 1994 European Commission released a communication *Toward a New Asia Strategy* [COM, 1994]. The goals of the strategy were as follows [COM, 1994, 2]: 1) to strengthen the Union’s economic presence in Asia in order to maintain the Union’s leading role in the

world economy; 2) to contribute to stability in Asia by promoting international co-operation and understanding; 3) to promote the economic development of the less prosperous countries and regions in Asia; 4) to contribute to the development and consolidation of democracy and the rule of law, and respect for human rights and fundamental freedoms in Asia. A wide scope of the strategy and predictions about the high intensity of activities were supposed to contribute to partnership development between Europe and Asia [Ładyka, 1998, 8]. The achievement of established goals was supposed to be safeguarded by bilateral agreements, interregional agreements and multilateral agreements [Smith, 1998, 302]. All above mentioned measures were made use of in the implementation of the strategy with the greatest role played by interregional cooperation. The implementation process took the form of ASEM initiative (Asia-Europe Meeting).^x ASEM cannot be considered as a forum of negotiations because at the beginning of the process an "Asian" style of discussion was accepted i.e. consensus and informality. Since 1996 ASEM summits have taken place every two years and each summit stipulates key issues and designs a schedule for the implementation of measures agreed.^{xi} The most important achievement of ASEM are in the economic area because of the implementation of such programs as Trade Facilitation Action Plan (TFAP), which is favorable to fostering a climate for a stable economic growth [Santagostino, 2003, 142].

As the strategy did not produce sufficient results in political dialogue, there appeared a need for the strengthening of trade and investment. The positive result of cooperation at the WTO forum, brought about the revision of the EU's strategy in 2001. But the most important change in the EU's policy toward the Asian region took place in 2006. In its communication, the European Commission argued that a properly conducted trade policy can contribute to the EU's economic growth and jobs creation [COM, 2006]. An indispensable condition to be met is to ensure competitiveness of European enterprises and to guarantee their access to exports markets [COM, 2007, 2]. The most important thing in the new trade policy is the strengthening of the multilateral trade system, which is beneficial to all countries involved. But if multilateral negotiations happen to be insufficient (because some areas are outside the WTO, e.g. public procurement, competition, intellectual property rights), a new generation of free trade agreements (FTA) may and shall be formed. The new FTA are supposed to be comprehensive, possibly aiming at a higher degree of trade liberalization including far-reaching liberalization of services and investment. The key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers). They should also take into account business relations between prospective partners and their EU competitors [COM, 2006, 11]. In the communication the following priorities were indicated: ASEAN, China and Korea. Japan was not mentioned as a priority.

The EU's shift in policy towards the Asian region has influenced trade relations with Japan. As former plans for the cooperation with individual Asian countries have been supplemented with a more comprehensive strategy, there has been a modification in the geographic priorities of the EU in Asia. Strategies towards individual Asian countries have been complemented by a more general strategy towards the entire region and, as a consequence, there has been a change in geographic priorities of the EU in Asia. Although the earlier history of EU's trade relations with Japan to date was influenced by a struggle to lower its trade deficit, since mid 1990s, and especially since 2006, the EU has concentrated not only on Japan itself but also on other Asian markets. The EU's attention is now focused on markets which are attractive and have potential for growth (e.g. China, ASEAN). More

active involvement of European enterprises in these markets can lead to a weakening of trade ties between the European Union and Japan.

3.5. Global and regional policy of Japan

The second half of the 1980s brought about a new stage in the development of the world economy, whose characteristic features are economic globalization and economic regionalization. Economic connections are developing intensively both worldwide and in the regional dimension, contributing to the deepening of international interdependence. Implementing its own global and regional policy and being an important player in the world economy, Japan shapes its relations with other countries. Globalization and regionalization are not processes which exclude each other – Japanese enterprises can formulate global strategies, capital can be invested in the entire world and at the same time the country can maintain its interests in the region [Lincoln, 1992, 13]. At the beginning of the 21st century such activities are a characteristic feature for the Japanese economic policy.

The Japanese global policy facilitates its economic expansion into international markets. This policy was manifested by active participation of Japan in multilateral trade negotiations at the GATT/WTO forum and by creating global strategies by Japanese enterprises. Bogusława Drelich-Skulska claims that: *"main assumption of Japanese foreign economic policy is strengthening of multilateral trade system"* [Drelich-Skulska, 2002, 256]. Such a trait of the policy favored international trade growth, beneficially influencing trade development of Japan with the EU. In the period under scrutiny, Japan has been engaged into multilateral trade negotiations having claimed that the promotion of activities at the global level would positively contribute to economic development and welfare.^{xiii} For Japan, the basic motive for its taking part in negotiations was benefits gained as a result of trade barriers reductions. As a consequence of the Uruguay Round, the protectionism of the EU toward Japan has weakened.

Japanese conviction as to the advantages of a multilateral approach over a regional one has traditionally characterized the trade policy of Japan – multilateral negotiations were a priority as an optimal measure in trade barriers reduction process^{xiii}. Regional agreements were treated as a second-class solution and this is why until the beginning of the 21st century Japan has not taken part in international process of establishing such agreements. The first such an agreement of Japan (Economic Partnership Agreement) was introduced with Singapore in 2002^{xiv}. A lack of formal agreements with Asian countries did not obstruct the process of achieving and enforcing by Japan a role of a main economic center of the region. Owing to a rapid growth of the yen after 1985 (*endaka*) and rising production costs in Japan, which reduced the competitiveness of Japanese exporters, Japanese involvement in the Asia-Pacific region was treated as an opportunity to maintain economic growth and the country's role in the world economy. Japan has shaped an intraregional international division of labor – trade, investment and financial ties have strengthened. Relatively lower production costs in Asia, which help to ensure export competitiveness for Japanese firms, has caused Asian countries to become Japanese exports platforms. Moreover, high economic growth in the region was an additional reason for presence on the Asian markets^{xv}.

In the long run, an increase in Japanese involvement in the Asian region may cause a fall in trade importance of the EU for Japan. Together with the economic growth of Asian economies, the structure of Japanese imports from the regions has changed^{xvi}. A growing share of manufactured goods in the volume of trade will mean more competition for the

EU's exporters and will diminish their exports to Japan. It can threaten the mutual trade, even more so because the EU also seeks to establish good relations with dynamically developing Asian countries.

3.6. Intensification of economic dialogue between the EU and Japan

The growth of importance of economic relations between the EU and Japan, a growing degree of their complexity and remaining barriers in mutual trade have made both sides realize a necessity of establishing and developing the dialogue. The dialogue keeps running mainly in the area of economy, but since 1991 the political, scientific and cultural issues have also been covered^{xvii}. Besides EU-Japan summits being held every year and constituting the highest level at which the most important issues are discussed, at lower levels there are numerous initiatives, often of a more practical character.

An important goal which should be achieved by the European Union with Japan is a promotion and acceleration of the structural reforms and deregulation process in Japan. The EU's representatives have claimed that EU's enterprises have a less equal access to the Japanese market in comparison to the access Japanese enterprises have to the EU's market. In their opinion a confirmation of this fact is trade deficit of the EU with Japan and an imbalance in foreign direct investments [Kokko, Lambert, Sjöholm, 2001, 302]. The economic situation in Japan at the beginning of the 1990s and revealed structural weaknesses of the economy made the government implement measures to liberalize the economy and to introduce deregulation reforms^{xviii}. The deregulation dialogue between the EU and Japan was established in 1994. Since then both sides have exchanged lists of proposals in the areas of their interest. Once such a list of proposals is exchanged, a discussion takes place in order to see if there are opportunities of implementing the proposals to domestic regulations. It seems that the EU is by far more interested in that form of co-operation as usually it formulates a longer list of proposals to Japan and tries to motivate partners to activity. In recent years also Japan has become more involved in the process.

An important initiative which favors trade development and which is at the same time connected with the deregulation dialogue was established in 1993 as *trade assessment mechanism*. With the use of statistical methods, there are indicated those areas of EU's and Japan's economies which are excessively protected against external competition. In a screening process the EU's exports to Japan are examined and results are compared to results of such countries as Australia, New Zealand, Canada and the United States [Kokko, Lambert, Sjöholm, 2001, 303]. Analogically, the Japanese trade results with the EU are examined. The trade assessment mechanism is an important instrument which favors mutual trade development as majority of proposals in the deregulation dialogue are arrived at thanks to the mechanism.

Another initiative beginning in 1994 which is also connected with the deregulation dialogue is mutual recognition agreements (MRA). Under the MRA the exporting party is authorized to check a good's conformity with standards of the importing party yet in a country of exports. Such agreements shorten a time of delivery to the final recipient and also reduce costs as the launch of the product into the market of the importing party does not require additional procedures of certification or testing. Mutual recognition agreements between Japan and the EU entered into force on January 1st, 2002 and cover products from four areas [European Commission, 2009]: telecommunications terminal equipment and radio equipment, electrical products, good laboratory practices for chemicals and

pharmaceutical good manufacturing practices. Exporters' cost reductions achieved due to MRA are estimated at 400 mln EUR.

Besides the initiatives at the highest level which should improve a general climate of mutual relationship, the dialogue also takes place at lower levels. There are many agreements in specific sectors of the economy which strengthen mutual economic relations. For example, every year since 1993 there are meetings in the framework of industrial policy and cooperation. The subjects of talks are among others: information policy, industrial standards, biotechnology. Co-operation in the industrial area also covers common research programs, common working groups in the field of standardization, certification, quality, biotechnology, information technologies [Kokko, Lambert, Sjöholm, 2001, 304]. All the initiatives are to intensify a dialogue in the field of industrial policy making.

The economic dialogue undertaken by Japan and the European Union is a dynamic process. It covers many fields of interests, and the existing ones are systematically developed and complemented by new initiatives. Among most important new forms of dialogue and new achievements the following ones should be mentioned [Pasierbiak, 2008, 222-223]:

- 1) The establishing of the High Level Trade Dialogue in 2007. First meeting took place on April 16, 2007.
- 2) The establishing of a dialogue concerning a public procurement in 2003. This is an initiative developing simultaneously with the deregulation dialogue.
- 3) The establishing of the dialogue concerning intellectual property rights in 2003. One of its effect was announcing in June 2004 the Japan-EU Joint Initiative for the Enforcement of Intellectual Property Rights in Asia.
- 4) The signing of the EU-Japan Agreement on Cooperation on Anti-competitive Activities in July 2003. It was agreed in the Framework of High-Level Meeting of Competition Policy.

Above mentioned changes in forms and intensity of the economic dialogue between Japan and the European Union let us state that more and more mutual relations depend on agreed institutional provisions. General improvement in the climate of mutual relations and the inclusion of new areas to be covered by joint resolutions let both parties cultivate mutual relations and to lower barriers in the development of trade and investment between Japan and the European Union.

4. Conclusions

The analysis conducted in the article has formed a basis for a statement that trade ties between the European Union and Japan are in a state of regression at the moment. Despite the favorable economic situation in the world economy, the connections between subjects from Japan and the EU have become less important for both the partners and the world economy. In the period 1995-2008 there existed factors which improved attractiveness of exports and imports markets located outside both the EU and Japan. And so, the involvement of Japan and the EU in Asia, being their geographical priority market, has adversely affected their mutual trade.

The fact that the world economy is now wrestling with a global economic crisis creates new opportunities for the development of international trade relations. As a result, the influence of the global economic slowdown on the shape of trade relations between Japan and the EU may become an interesting subject matter of further research.

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Notes

ⁱ Own calculations based on data from table no. 1.

ⁱⁱ In 2000 Japan was 3rd export market for Japan and 2nd import market. Till 2008 Japan has fallen to have 6th and 7th position, respectively.

ⁱⁱⁱ In a trade with Netherlands and Belgium there is so called “Rotterdam effect”, which distorts trade flows. Netherlands and Belgium are often not countries of goods’ final destination but only countries where foreign goods arrive and are recorded in harmonized EU external trade statistics. This is why the value of Dutch and Belgian imports are overestimated, which results in artificial surplus of trading partners, Japan among them.

^{iv} This part of the article contains actualized fragments of the publication P. Pasierbiak, *Miejsce Unii Europejskiej w zagranicznej ekspansji gospodarczej Japonii*, Wydawnictwo UMCS, Lublin 2008, pp. 206-230.

^v TFP measures an effectiveness of utilization of all factors of production – labor, information-communication capital (ICT capital) and conventional capital. [European Economy, 2007]

^{vi} In the opinion of H. Patrick one of the reason of why the crisis happened and lasted was mistakes in macroeconomic policy of the Japanese government. The author indicates some of them, among others growing imbalance in utilization of fiscal and monetary instruments [Patrick, 1999, 1.12-1.13].

^{vii} A real exchange rates of the yen toward 41 most important trading partners has fallen by 18% [OECD, 2008, 26, 28].

^{viii} Already in 1981 trade between Asia and North America was bigger than transatlantic trade. [JETRO, 1990, 34].

^{ix} Relations of the U.S. with Asia were institutionalized in the APEC Framework (1989) and EU-USA relations in the Transatlantic Declaration (1990) and the New Transatlantic Agenda (1995).

^x In ASEM there are 43 countries: EU member countries (27), ASEAN member countries (10), China, India, Japan, South Korea, Mongolia, Pakistan and additionally the European Commission.

^{xi} The first summit took place in Bangkok, than in London (1998), Seoul (2000), Copenhagen (2002), Hanoi (2004), Helsinki (2006) and Beijing (2008).

^{xii} Japan's overall trade policy objective is to ensure long-term prosperity and growth by promoting business activities in Japan and at an international level. [WTO, 2006, 14]

^{xiii} Such an approach still dominates in Japan. In the Globalization strategy from May 2006 there was a confirmation of Japan's aspiration to liberalize trade barriers firstly by in the multilateral negotiations and that by regional trade agreements [OECD Economic Survey, 2006, 193].

^{xiv} Beside this agreement there also exists an agreement with Mexico (since 2005), Malaysia, Chile and Philippines (since 2006) and Thailand, Indonesia and Brunei (since 2007). [OECD Economic Survey, 2006, 173, 186; OECD Economic Survey, 2008, 46].

^{xv} There were also other reasons of growing “regionalism” in trade policy of Japan. These were among others: independency from the U.S.’ protectionism, creating regional initiatives without Japan involvement and a need for cooperation with China [Gilpin, 2000, 269].

^{xvi} We have such a situation in the case of Japan's relations with China. In the past Japan imported mainly not manufactured goods, but now it imports good with high degree of transformation. [JETRO, 2005, 12]

^{xvii} On July 18, 1991 the Joint Declaration on Relations of European Community and its Member States and Japan was signed.

^{xviii} In March 1995 the three year deregulation program was introduced, which was extended several times.