



UNICE

Union of Industrial and Employers' Confederations of Europe

Union des Confédérations de l'Industrie et des Employeurs d'Europe

TOWARDS GLOBAL PARTNERSHIP

UNICE Position on EU-Japan Economic and Trade Relations

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Executive Summary

- Against the backdrop of the economic difficulties in Japan and the Asian financial crisis, domestic demand stimulation and financial reform are more important than ever as a means of revitalising the performance of Japan's economy.
- UNICE is very much concerned about the renewed Japanese export drive vis-à-vis the European Union. Japan's reliance on exports alone to boost growth is not sustainable, either economically or politically.
- A growing domestic economy stimulated by effective demand management, tax reductions and deregulation should be a major contributing factor to helping overcome the economic and growing political difficulties faced by Asia/Pacific economies.
- Effective demand management, permanent tax reductions and deregulation will lead to:
 - improved market access
 - more dynamic inward investment
 - greater consumer choice
 - lower prices
 - increased economic efficiency
 - higher economic growth, and
 - a better quality of life for Japan's citizens.
- UNICE very much agrees with both the Japanese government and business that structural reforms, in particular deregulation, have - beyond immediate macro-economic needs of solving the bad debt problem - a key role to play in sustaining a demand-led economy. Crisis management and deregulation are thus complementary and are both essential parts of the same process to revitalise the Japanese domestic economy.
- UNICE therefore strongly welcomes:
 - the new three-year deregulation programme from 1 April 1998, which corresponds to a long-standing UNICE request, and
 - the creation of the new 'Deregulation Committee' to oversee the deregulation process, including a representative of European business interests in Japan.
- However, UNICE attaches the utmost importance to effective implementation of the new deregulation plan. It is concerned that a number of the commitments and measures announced therein are not set out in detail, while others are subject to further study or deferred implementation.
- UNICE welcomes in particular the new guiding principles of the deregulation programme, including the reduction of costs for business through administrative simplification and greater use of international standards. UNICE looks forward to these principles being vigorously applied across all sectors of the Japanese economy.
- To cope with enhanced Japanese competitiveness as a result of deregulation and improved market access, UNICE at the same time supports European measures to facilitate adjustments of companies for improved competitiveness, including adaptation to the European single currency.
- UNICE is looking for closer co-operation with the European institutions and Japanese business to strengthen and deepen the EU-Japan relationship which is of vital importance for European business and the world economy.

1. Introduction

Both the European Union (EU) and Japan are major political, cultural and economic players on the world stage. Both share universal values and face the same challenges. The dramatic development of the Asian financial crisis in 1997/1998 and the need to strengthen global financial co-operation calls for joint efforts to exercise world responsibilities and partnership for adjustment and recovery. As the world's largest creditor, Japan holds the key to pulling the world's economy out of the dangers of depression in this financial turmoil.

The „Joint Declaration on Relations between the European Community and its Member States and Japan“, signed in The Hague on 18 July 1991, established a firm basis for global partnership between EU and Japan.

In the last few months much attention has been focused on the Japanese economy and the Asian crisis. The Japanese economy and financial system are under severe strain caused by a serious loss of confidence and a decline in domestic demand, resulting from a policy-induced recession in 1997 and the overhang of bad debts caused by the asset price boom of the late 1980s. These problems have been compounded by the Asian financial crisis. The immediate needs to revitalise the economy through effective demand management and tax reductions and to come to grips with the problems of the financial sector and the bad debt problem in particular are the overriding political and economic priorities in Japan. These needs, which are urgent priorities, should be seen against the background of the longer term requirement for deregulation.

UNICE urged ASEM governments (on the occasion of the London Asia-Europe Summit/ASEM2, April 1998) to support full and swift implementation of the stabilisation and structural adjustment programmes in order notably to reform the financial sector and to ensure the required independence of financial institutions. UNICE is convinced that - despite the current economic and financial problems - Asia/Pacific, with Japan's involvement throughout the whole of the region, remains a major area for growth, and for potential fruitful partnerships between Asian and European businesses.

The following:

- gives an overview of the Japanese market access and deregulation status,
- enumerates concrete proposals for required measures concerning:
 - Japanese deregulation, and
 - European adjustment measures,
- draws attention to Japan's global importance.

This report supplements the comprehensive information given by the “Market Access Database”¹ as well as by the status reports on “EU-Japan relations”², both European Commission internet databases.

¹ <http://mkaccdb.eu.int/mkdb/sec1.pl>

² <http://europa.eu.int/comm/dg01/pol28.htm>

2. Japanese Deregulation: Assessment and Proposals

2.1 Japanese deregulation programme

- UNICE welcomes the new three-year deregulation programme from fiscal year 1998 (1 April 1998). UNICE feels encouraged by the commitment of the Japanese government to create a free and fair socio-economic system which is fully open to the world and based on the rules of accountability and market principles.
- The new deregulation programme is a step in the right direction and corresponds to a long-standing UNICE request. In addition, a positive feature is that the programme contains a number of measures specifically requested by European business for many years, such as opening of distribution channels, liberalisation of capital markets and a streamlining of administrative procedures.
- At the same time, UNICE is concerned that a number of the commitments and measures announced are not set out in detail, including horizontal measures to enforce competition policy, while others are subject to further study or deferred implementation.
- UNICE welcomes the regulatory principles set out in the new three-year programme, including:
 - cost reductions for business through administrative simplification
 - decoupling of public and business sectors (e.g. re-transfer of inspection functions to the business sector)
 - greater use of international standards.

UNICE looks forward to these principles being vigorously applied across all sectors of the Japanese economy.

- UNICE supports ongoing deregulation and cross-sectoral structural reform in Japan and welcomes the unequivocal proposals by “Keidanren” (“Japan Federation of Economic Organisations”), ‘Keizai Doyukai’ (“Federation of Japanese Business Executives”) and others to promote and implement required structural reforms in Japan, including:
 - radical tax reform
 - abolition of cumbersome regulations
 - transfer of activities which can be carried out by business to business
 - facilitation of foreign investment in Japan
 - greater capital efficiency
 - firm corporate governance.

2.2 Deregulation and market access

- Monitoring mechanism

UNICE welcomes the creation of a new high-level “Deregulation Committee” directly answerable to the “Administrative Reform Promotion Headquarter” chaired by the Japanese Prime Minister. The mission of this committee is

- to monitor implementation of the some 620 items in the new deregulation programme, and
- to make new vertical and horizontal deregulation proposals.

UNICE welcomes the fact that the new “Deregulation Committee” includes a representative of the European business community in Japan but urges that the various ministries should take fully into account the views and experiences of European companies in Japan when considering regulatory changes.

UNICE is convinced that development of co-operation and a strengthening of bilateral business-to-business dialogue are useful in the search for solutions to the problem of Japan’s trade and investment surplus.

Concrete results can be improved through structured monitoring mechanisms with the direct involvement of European and Japanese business representatives, including business participation in the EU-Japan deregulation dialogue.

The “Market Access Database“ of the European Commission and other data bases can contribute to such an assessment.

- ? UNICE supports the view that there is a clear need for an effective system for ongoing monitoring and other assessment of the results obtained from implementation of the new deregulation programme as well as of the economic aspects of the 1991 „Joint Declaration“, both in close co-operation with European business.

- Foreign investment

It has been established that there is very often a direct correlation between the amount invested in the commercial and financial sector of a foreign country and the penetration of foreign products and services on that market. Turnover measurements both in Europe and in Japan show that foreign real access/growth is much greater than shown by FDI figures alone. But FDI remains a major indicator for the assessment of investment-trade linkages and European FDI in Japan is very low in percentage terms and substantially below Japan’s investment in Europe.

To further reduce substantially the investment-trade twin imbalance, it is therefore indispensable for the Japanese market to be more open to foreign investment.

- * Liberalisation of financial markets

UNICE welcomes the “Big Bang” deregulation proposals in the financial sector, because they go a long way to meet the demands of Japan’s foreign partners. These measures will extend the sources of finance available to foreign enterprises established in Japan and therefore reduce a handicap they currently suffer.

- ? UNICE urges further progress in implementation of financial market “Big Bang” deregulation and in elimination of remaining barriers to European portfolio investment.

New supervisory arrangements have been introduced with the “Financial Supervisory Agency” (FSA). But there is a lack of substantive dialogue by the

authorities with the financial services industry, which may impede the smooth introduction of the proposed framework

? UNICE stresses the need for a detailed definition of the FSA's responsibilities. Also, in the securities field, there is a need to set limits on liability with respect to the investor protection fund.

* Mergers and acquisitions

UNICE welcomes the decision by the Japanese government to facilitate foreign take-overs of Japanese companies (mergers and acquisitions) as a means of making the economy more productive and helping overcome the recession.

Although restrictions on foreign equity have been eased and recently this area has shown signs of growth (telecom, banking, securities), foreign investors continue to be frustrated in their attempts to acquire going concerns in Japan through mergers and acquisitions.

The main point is that Japan's business culture does not encourage M&A even for Japanese companies. This will not change easily but such change needs to be nurtured and encouraged by public authorities.

In some cases the restrictions have been due to the "system of stable shareholders", who hold a majority of the shares and would not sell at any price, unless they choose to sever their commercial relationship. However, in other cases foreign investors have encountered unhelpful tactics from Japanese government agencies and from large shareholders, denying the majority of shareholders the opportunity to accept or reject an offer from a foreign investor.

? UNICE proposes pro-active facilitation measures by the Japanese government to expand direct foreign investment in Japan and, in particular for the proper application of take-over rules in all sectors.

• Competition policy

In the field of competition policy, UNICE fully supports the commitment by the Japan "Fair Trade Commission" (FTC) to enforce competition rules strictly. UNICE does not share the FTC assessment that Japanese competition policy is sufficient with regard to sanctions, penalties and prescription periods.

? UNICE proposes more effective enforcement of the "Antimonopoly Act" (AMA) and further elimination of exemptions under specific laws and the AMA.

? UNICE urges the allocation of more staff and resources to the FTC to achieve more effective enforcement of competition policy decisions.

• Administrative procedures

Japan has committed itself to streamlining the administrative framework, not only by sectoral measures but also through fundamental structural and cross-sectoral reforms.

However, greater, more detailed and transparent information is required to assess the application of the administrative procedures and the intended reforms.

The practice of oral “administrative guidance”, strongly embedded in Japanese traditions, based on individual official interpretation creates special uncertainty for individuals and companies, and sometimes leads to discriminatory treatment of foreign investors. This practice should therefore be abolished.

Public comment procedures are being improved and the views of foreign firms are being more actively sought before regulatory changes are made. But the time limits are often too tight. For example, the policy-setting bodies should offer their recommendations for public comment and broad discussion with at least 2 weeks’ notice. A draft summary should be produced swiftly in English to encourage foreign comment and to accommodate the global character of business on which domestic regulations and policy have an impact.

? UNICE welcomes steps further to improve transparency by information disclosure and to allow for timely business and other public comment on the purpose and content of administrative and other important policies well ahead of their adoption. Implementation of these procedures should be monitored carefully.

- Public procurement

Liberalisation of Japanese public procurement is still largely insufficient. The deadlines for tender calls are too short to allow preparation of convincing tenders by foreign companies. Therefore, UNICE welcomes the inclusion in the deregulation programme of measures relating to public procurement.

? UNICE looks forward to concrete proposals which will effectively improve access to public procurement issues.

- Distribution practices

Despite the changes in the Japanese distribution system, foreign companies still encounter difficulties in trying to distribute their products or services via existing channels in Japan. They are often obliged to create their own distribution network, which is economically inefficient for many everyday consumer products and services.

They attribute their difficulties to the heavy “Keiretsu” dependence of Japanese distributors on the Japanese manufacturers whose products they sell. More transparency and openness in this area would facilitate penetration of foreign goods and services on the Japanese market and improve the distribution system in the interest of consumers.

? UNICE therefore proposes that special attention be paid to Japanese distribution practices, following on from concrete business experiences to be referred to in the “distribution dialogue” to be pursued by the Commission. Each sector needs to be examined in detail with a view to proposal of specific measures appropriate to that sector.

- Standards and certification

The complexity and lack of transparency in Japanese legislation on standards and certification are still obstacles to market access in spite of some improvements. Therefore, UNICE welcomes the commitment in the new three-year deregulation programme to review standards and specifications as well as inspection and certification systems to achieve greater conformity with international standards by promoting the acceptance of foreign reference data and the adoption of mutual recognition agreements (MRA).

The recent signature by Japan of the UN/ECE 1958 Agreement³, taken as an important example, is a step into the right direction of a stronger international orientation of Japanese standards.

Japan and the EU have now reached a basic agreement on mutual recognition of test results for authorising standards in the areas of telecommunications equipment, pharmaceuticals, electronics and chemicals. However, Japan should set a timetable for revising its laws to allow for recognition of foreign-designated testing institutions.

- ? UNICE suggests to simplify and clarify certification procedures to be followed, including homologation, and to indicate maximum lead-times for these procedures. In cases where agreement has been reached on standards, the pace of implementation should be accelerated and more ambitious targets should be set.

3. European Adjustment: Assessment and Proposals

- Strengthen EU business competitiveness

Reduction of the EU's trade deficit with Japan depends not on market access and deregulation in Japan alone. It depends also on the competitiveness of European companies on world markets.

Therefore, it is essential to create an economic environment which favours the development of business activities, by implementing the conditions necessary for the competitiveness of EU industry, notably by facilitating adjustment to structural change.

Restructuring is a necessary and continuous process. Globalisation means that economies and societies, as well as their regulatory and policy frameworks, must constantly be ready and able to adjust to changing conditions and new requirements.

In UNICE's view, removal of all internal frontiers on completion of the Single European Market and adoption of the single currency "Euro" as of January 1999 will place European companies in a context closer to the framework within which their Japanese and US competitors operate.

³ „The revised 1958 Agreement concerning the adoption of uniform conditions of approval and reciprocal recognition of approval for motor vehicle equipment and parts“ under the aegis of the United Nations Economic Commission for Europe. The Japanese diet adopted the accession to the 1958 Agreement on 20 March 1998 and it will enter into effect in November 1998

? In its report ‘Benchmarking Europe’s competitiveness: from analysis to action’ (February 1998) UNICE made a series of recommendations for action:

- to improve the European business environment
- to streamline the public sector and make it more effective
- to reduce the burden imposed on companies
- to reform labour markets.

These measures should be fully implemented to improve the competitiveness of European companies.

- Support EU innovation

Despite the current economic and financial crisis in Japan, Japanese industry is still predominant in a number of strategic technological sectors (e.g. microprocessors, supercomputers, robotics, military electronics, etc.). Due to the ongoing risks of economic dependence, it is necessary to enhance European research and development activities in the area of high technology.

In order to ensure a better spread of high-technology in the European productive base, it is desirable to facilitate improved contacts between supplier and user sectors at EU level.

It is essential for research policy to respond to the need to integrate research results into industrial products and processes as rapidly as possible. European companies should take advantage of Japanese inventions in the same way as Japanese companies have exploited European technological innovations.

? In order to encourage technology transfer and more open competition between Europe and Japan, UNICE suggests to enhance the role of the ‘EU-Japan Centre for Industrial Co-operation’ to evaluate the results obtained by Japanese researchers and to draw the attention of European companies to Japanese advances.

- Facilitate access to new market opportunities

Despite the difficult economic situation in which Japan presently finds itself, Japan’s potential for overcoming those problems is undiminished. Japan’s economy and in particular its financial system are temporarily suffering from enormous pressure for change, but its foundations are secure.

In the short term, Japan will be a difficult market for European products because of weak demand but primarily because of changed currency parities. However, in the medium term completely new market opportunities will appear thanks to deregulation which will make the Japanese domestic market the test market par excellence for competitive European goods and services. European companies now see the possibility of penetrating hitherto regulated areas and structures and winning new markets.

European companies should focus on the opportunities opened up by Japan’s deregulation and dismantling of closed structures, especially in distribution and supply chains. They should exploit their comparative advantage in sectors which will be Japan’s growth markets within the foreseeable future (“new” markets such as environmental technology, telecommunications, transport technology/logistics, medical technology, etc.).

European export promotion programmes, such as adopted by the Commission should be developed in close co-operation with national governments and trade associations. An upgrading and wider dissemination of the information activities of, for example, the ‘EU-Japan Centre for Industrial Co-operation’ and publication of documents such as the exporter’s guide and the study on image of European products in Japan are also useful for European exporters to Japan.

? UNICE therefore supports initiatives by the European Commission to improve the complementarity of European promotion activities (market information, „Gateway to Japan“ and export promotion programmes, like „Exprom“, etc.) with that of Member States.

- Improve mutual understanding

Lessons for better dialogue and co-ordination could be learned from economic cross-cultural initiatives taken at national level which aim at encouraging large, medium and small European companies to include Japan in their basic strategies.

In the absence of a better understanding of the Japanese market and culture, European companies will find it difficult to derive full benefit from the advantages obtained in the area of market access. The ‘European Commission’s Executive Training Programme’ (ETP) contributes to achievement of this objective. However, it is insufficient in comparison with needs and its high cost limits its development.

The costs of stays in Japan would be reduced if the trainees had a sufficient basic knowledge of Japanese language and culture before leaving Europe. Member States should increase their efforts to co-ordinate more closely their national programmes to develop modern Japanese studies and to enhance youth exchanges.

The ‘Human resource training programmes’ (HRTP) and ‘Vulcanus’ company training programmes of the ‘EU-Japan Centre for Industrial Co-operation’ are beneficial and could be expanded with resulting benefits to European industry.

UNICE supports the development of dialogue between business organisations in Europe and Japan at horizontal and sectoral level. These direct contacts and dialogues generate synergy and can be helpful by providing advice and assistance for the solution of political problems. Therefore, UNICE encourages further improvement and co-operation between European and Japanese business initiatives on multilateral or bilateral issues of common interest.

The ‘EU-Japan Industrialists’ Round Table’ and the ‘EU-Japan Business Forum’ are beneficial in improving and deepening the mutual understanding and cross-cultural awareness between EU and Japanese business. Their activities should be more transparent and their reports should be more widely disseminated to business/industry groups in the EU Member States.

? UNICE underlines the need to develop education and training programmes further, including at school level, in order to familiarise a wide public with Japanese culture and practices, and to train specialists in Japanese management, production and commercial methods.

? UNICE reiterates suggestions for improvements in the ETP programme, its cost effectiveness and flexibility.

- ? UNICE encourages further co-operation between EU-Japan business initiatives on multilateral or bilateral issues.

4. Japan's Global Importance

4.1 Japan's presence around the world

- Transplant manufacturing

The Japanese economy is not limited to Japan alone. As a “world player” Japan holds a substantial share of GDP and economic output in global growth markets. Through its overseas manufacturing and satellite based service networks, it is strongly integrated in the trade pattern of many national economies, not in South-East Asia alone.

Manufacturing in the EU and imports from Japanese transplants in other third markets (e.g. automobiles, electronic devices, semi-conductors and other components from India, Malaysia and Australia) are progressively substituting and/or supplementing direct imports from Japan.

A lower Yen exchange rate will favour exports of consumer goods and services to markets in Europe, Latin America and the US, which may fuel the protectionist pressure and consequently lead to a revival of trade conflicts with the US and EU.

- ? UNICE favours maintenance of the open-door policy for Japanese trade and investment in the EU. New protectionist trends vis-à-vis Japanese imports to the EU from Japan or third countries should be resisted.

- ? However, UNICE underlines the need for:

- an even stronger integration of Japan's global economy in the local industrial fabric through greater use of local suppliers and subcontractors, and
- the pursuit of Japan's resolve for improved market access through domestic growth stimulated by implementation of deregulation and financial reforms.

- EU investment incentives

Within the EU, Great Britain has become the most favoured location (e.g. for reasons of cost advantages, investment incentives, language and other communication advantages). Spain and certain other EU Member States have also for reasons of favourable conditions, both economic and financial, increasingly been attracting Japanese foreign direct investment.

- ? To avoid any policy-induced imbalance in Japanese investments in the EU, UNICE calls for equitable competitive conditions throughout the Single Market, notably through the removal of discriminatory fiscal and other investment incentives.

4.2 Japan's global political responsibility

- Multilateral and bilateral approaches

In line with its global reach, Japanese companies consider that the multilateral approach to world trade issues and global negotiations to be the most appropriate. Japan's business community has high expectations of the WTO as a central actor in world economic activities.

UNICE welcomes the proposals by "Keidanren" ("Japan Federation of Economic Organisations") to strengthen the WTO, to develop the international rule-based multilateral trading system even further and, in particular, to enhance the ties between WTO and the business sector⁴.

? UNICE is ready to pursue its dialogue with Japanese business on multilateral trade issues with a view to contributing to development of the consensus necessary for the launch of a new round of trade negotiations in the year 2000.

However, UNICE is convinced that, in addition to multilateral negotiations, bilateral relations dialogues (like the EU-Japan dialogue or the regional ASEM process) are useful in the quest for solutions when they take place in the wider perspective of respecting the principles provided by the multilateral WTO framework.

It would be desirable for the EU to enhance its partnership with Japan in OECD and other multilateral fora, and to encourage Japan to play an increasingly active role in international organisations. Japan is willing to do this and should be supported when displaying global responsibility consonant with its global economic power.

? UNICE supports extension of the EU-Japan dialogue on macro-economic policies within G7/G8, WTO, OECD and other international fora. It stresses the link between macro- and micro-economic policies on the one hand, and the persistence of the Japanese trade and investment surplus on the other.

- EU-Japan global partnership

Japan and the EU are actively strengthening their ties with a large number of co-operative projects of global importance. The 1991 "Joint Declaration" specifically provides for the pursuit of joint projects in the areas of industrial co-operation, including advanced technology, energy, employment, social issues, aid policy, environment and competition policy.

UNICE considers that the transformation of the Central and Eastern European economies and their acceptance of the EU rules and regulations will not only increase trade with these countries but also create new co-operation opportunities between Japanese and European companies. The same applies in particular to the restructuring efforts of the countries of South-East Asia.

? UNICE strongly supports co-operation in third countries between European and Japanese companies (e.g. in South-East Asia and Eastern Europe) to enhance global partnership between EU and Japan business.

⁴ "Towards a stronger WTO", Keidanren, 17 March 1998

5. Conclusion

Dramatic changes in world economic affairs and in bilateral EU-Japan relations have occurred in recent years. However, serious reforms (financial sector restructuring and fiscal stimulus) are needed in order to manage today's crisis, to revitalise the domestic Japanese economy and, in particular, to steer the Japanese financial system back to health. The banking reforms announced on 2 July 1998 by the Japanese government should be vigorously implemented to aid economic recovery.

Ongoing deregulation and improved market access in Japan are required to reduce the structural surplus in the bilateral EU-Japan trade-investment imbalance and to promote the development of global partnership between the EU and Japan.

European companies must also come to terms with the new and enhanced Japanese competitiveness which can be expected to build up as a result of Japanese adaptation to the Asian economic and financial crisis.

UNICE hopes that the process of political, economic and cultural dialogue between Europe and Japan will be strengthened. European and Japanese business communities can play a greater role in this process. With their experience and know-how, companies can contribute to the regulatory reforms in both the EU and Japan, to the benefit of European/Japanese partnership.

UNICE will continue to support forcefully the strengthening of EU-Japan co-operation in order to build a more broadly-based partnership, encompassing a wide range of issues of global importance (such as industrial co-operation, social issues, environment) that are in the interest of both sides and benefit business exchanges. To achieve this goal which is of vital importance for European business and the world economy as a whole, UNICE is looking for closer ties with the European institutions and Japanese business.

Attachment

Background information/Statistics⁵
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1. Japan's Trade Flows

The volume of Japanese trade with the EU increased slightly from JPY 11.89 trillion in 1992 to JPY 12.20 trillion in 1996, although its share in total Japanese export revenues (JPY 82.72 trillion in 1996) fell from 16.4 to 14.8% over the same period. The European deficit narrowed from JPY 3.4 trillion in 1992 to a mere JPY 1.48 trillion in 1996. This can be traced primarily to considerable growth in European exports to Japan (JPY 5.36 trillion in 1996, up 35% on 1992). But at the same time, there was a decline in exports from Japan to the EU (down 13.6% on 1992) to JPY 6.85 trillion in 1996.

But, affected by the Asian financial crisis, the EU's solid surplus in total world trade transformed for the first quarter of 1998 (January-March) into an overall deficit of ECU 2.7 billion. According to Eurostat, the Statistical Office of the European Communities, the effects of the crisis can be seen in a fall in exports to Japan by 11% in the first quarter of 1998. At the same time, imports from Japan continued to grow strongly by 20%.

EU trade with Japan (January - June 1998):

EU15 exports to Japan			EU15 imports from Japan			trade balance	
1998	1997	growth	1998	1997	growth	1998	1997
15.6	18.3	-14.8%	32.3	28.6	12.9%	-16.7	-10.3

source: eurostat

billion ECU

Given the massive growth in exports to EU and the USA (not to mention the massive production capacity build-up by Japanese transplants within these markets), Japan's trade surplus ballooned in fiscal 1997/1998 (to 31 March) by 80% to JPY 11.4 trillion.

Despite the drag created by the Asian economic and financial crisis, Japan's exports were up by a total of 11.7% to a new record of JPY 51.4 trillion, while imports stagnated at the previous year's level at just under JPY 40 trillion by value (up 0.8%).

In the last fiscal year, Japan's exporters benefited from a further marked depreciation in the Japanese currency of close to 9% or an average of JPY 122.50 to the dollar, and from sustained economic expansion in the USA and Europe. This allowed exports to the USA to increase by 14.8% to JPY 14.5 trillion and to the EU by as much as 18.9% to JPY 8.3 trillion. Since imports from the USA increased only slightly and imports from the EU even shrank markedly, Japan's trade surplus with the USA swelled by 44% to JPY 5.4 trillion while the comparable figure for the EU was almost JPY 3 trillion, up by more than 100% on the previous year.

Complementary to the resurgence of exports from Japan (due to the 1997/1998 Yen exchange rate with a further fall of the Yen against the dollar to around JPY 145 in July/August 1998 and still JPY 133 in September) goods and services have in recent years been produced either directly in the EU or in other third markets on the basis of Japanese foreign direct investment (FDI). Such Japanese production sites in third countries ("transplants") have to be taken into account to assess the traditional bilateral EU-Japan or other trade statistics and to obtain a full picture of Japanese trade flows within the global economy.

⁵ Statistical sources: Eurostat, Wall Street Journal, Financial Times

At the heart of the Japanese export offensive in the EU were automobiles (1.1 million vehicles, up 35%), computers (24.9 million units, up 23%), television sets and video recorders (4.9 million units, up 28%), other mechanical, electrical and electronic products plus chemicals (up 11%), and metals and metal products (up 38%).

Against this, at JPY 5.3 trillion Japan's imports (including re-imports) from EU Member States were down 4.2% on a year earlier. The main cause was the drastic decline in exports of European automobiles to Japan (248,000 vehicles, down 17%).

Total European exports of machinery to Japan shrank by just under 8% to JPY 2.1 trillion. At the same time, exports of textiles fell by almost 15% to JPY 356 billion and pharmaceuticals by slightly less than 7% to JPY 292 billion. The European food and electronics industries managed to chalk up clear increases in their exports to Japan.

All in all, trade relations between the EU and Japan have deepened significantly in recent years. Japan's trade surplus with the EU fell by more than 50% between 1993 and 1996. The ratio of EU exports to Japan (including Japanese re-imports) to EU imports from Japan also increased from 50% in 1992 to 78% in 1996. Despite this, the discernible downward trend in Japan's balance of payments surplus reversed drastically in 1997.

2. Foreign Investment

At a total volume of JPY 770.7 billion (1,304 individual investments), direct investment by foreign companies in Japan increased by 108.5% in fiscal 1996 on the previous year. Japanese direct investment abroad was up 9.1% by value to JPY 5.41 trillion. Despite this narrowing trend, the ratio between inflows and outflows of direct investment by value still stands at 1:7 (1995: 1:13).

Increased foreign investment in Japan can be explained both by the weaker yen against the dollar (down 16% between 1995 and 1996) and by a small number of large individual investments. While US companies are the source of most FDI (JPY 244.5 billion in 1996, a year-on-year increase of 36.9%), the increase by value of direct investment from Europe (up 72.8% on the previous year in 1996 to JPY 220.2 billion) is also significant. Against this, the number of individual investments by European companies went up only modestly (353 against 330 in 1995).

By investment volume, Dutch companies are the leaders for European FDI in Japan (JPY 80.4 billion), followed by German companies (JPY 47.7 billion) and British (JPY 40.5 billion). The share of FDI from EU reduced as a whole from 34.5 to 28.6% in fiscal 1996.

In fiscal 1996 the most attractive host for the direct investments of Japanese companies continued to be Great Britain which pulled in JPY 387.3 billion, more than three times as much as the Netherlands in second position (JPY 123.8 billion). At JPY 64.3 billion, Germany attracted 21.3% more Japanese capital than the previous year, whereas the number of individual investments almost halved from 59 to 30. With a volume of JPY 56.6 billion after JPY 156.1 billion the previous year, France fell from second to fourth place.

60.4% of Japanese FDI in Europe in fiscal 1996 flowed into non-manufacturing industry, in particular the finance and service sector (JPY 192 billion) and commerce (JPY 179 billion). In manufacturing industry, the electronics industry dominated (JPY 87.3 billion), ahead of transport (JPY 73.2 billion) and the chemicals industry (JPY 55 billion).