

## UNICE POSITION PAPER ON JAPAN

### INTRODUCTION

Japan is an important partner for the EU economically, politically and culturally. It represents one seventh of world GDP and around 10% of world exports and imports, making it the world's second largest national economy. Moreover, it plays a fundamental role in Asia, representing two thirds of regional GDP.

From the EU side, it seems that the adverse economic situation in Japan has provoked a salutary reaction from policy-makers through a questioning of the system which brought prosperity to the country from the end of the second World War until the bubble economy burst. It is perceived that this post war system no longer fits in with the paradigms of the new economy.

There is a window of opportunity for Japan to restructure its economic system by making it more open, more transparent and more conforming to international standards. The needed structural reforms, if fully implemented, will no doubt benefit European firms which see Japan as an essential element in their development strategies but which face many difficulties in this market. Restructuring in Japan will also benefit Japanese consumers, Japanese businesses and Japanese society as a whole. Likewise, UNICE recommends that structural reforms be taken at EU level.

The European Union and Japan are important economic partners. However, UNICE believes that the potential of their economic links is far from being fully exploited. If in some fields, such as WTO, the mutual cooperation is a success, in others such as market access or deregulation much remains to be done. In January 2000, in Paris, Japanese Foreign Minister Kono laid out his vision of a Europe-Japan Millennium Partnership. This statement of position is a clear signal, confirmed by the conclusions of the 19 July 2000 EU-Japan Summit, that Japan wants to foster closer ties with the EU. It is timely to review EU relations with Japan by assessing what has been done and defining a framework which responds to the challenges and the needs faced by the EU and by Japan.

This update of the 1998 UNICE position paper on Japan<sup>1</sup>, most of whose elements remain valid, aims to focus on areas which are of great importance to European firms. If EU and Japanese policy-makers work together on these fields, economic relations between the EU and Japan, which are a fundamental element of general EU-Japan relations, would greatly improve to the benefit of both parties and the global economy in general.

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<sup>1</sup> *Towards Global Partnership*, UNICE position on EU-Japan Economic and Trade Relations, 7 October 1998, Brussels. This paper is available on the UNICE web-site: <http://www.unice.org>

## **GENERAL FRAMEWORK FOR COOPERATION**

Cooperation between the EU and Japan takes place within the framework of the 1991 Joint Declaration on "Relations between the European Community and its Member States and Japan". This Joint Declaration sets out a number of principles common to the EU and Japan such as the need to promote freedom, democracy, the rule of law and human rights, and a common attachment to the principles of the market economy.

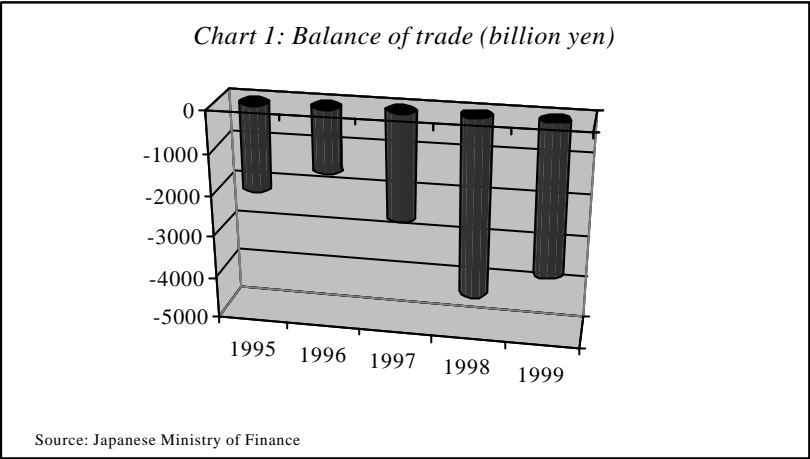
The consultation mechanism defined in the 1991 Joint Declaration (EU-Japan Summit, EU-Japan Troika Ministerial Meeting, EU-Japan Troika Political Directors Meeting) has proved to be efficient on some aspects of the cooperation between the EU and Japan (e.g. WTO issues).

Next year will be the 10<sup>th</sup> anniversary of the Joint Declaration. UNICE welcomes the will of both Parties, as stated in the conclusions of the 19 July 2000 EU-Japan Summit, to give new impetus to their relations through a "new co-operative framework for a stronger partnership" which could pave the way for even better mutual understanding and closer cooperation on issues of common interest. This Partnership will be a clear signal that two important economic powers have a shared view of their responsibilities to influence the design of the new Millennium.

UNICE believes that this EU-Japan Partnership should provide a framework for greater cooperation on issues of common interest and for more effective management of disputes. It should provide a pragmatic approach based on concrete actions to enable both parties to achieve tangible results and bridge differences on key foreign policy issues such as bilateral and multilateral diplomacy, global challenges and trade. UNICE welcomes the fact that economic and trade matters are among the four objectives for a stronger Partnership between the EU and Japan. It supports a strengthened Partnership in developing cooperation in the following issues: WTO, international monetary and financial system, regulatory reform, improving market access, improving the investment environment, competition policy, customs cooperation, information technology, business dialogue.

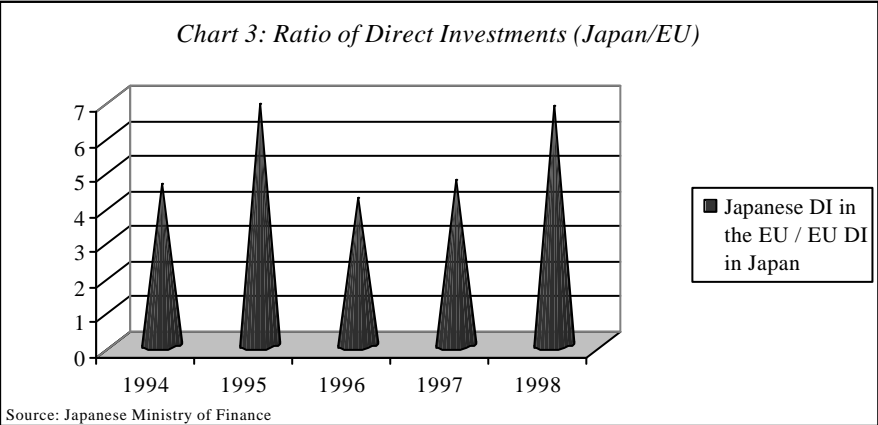
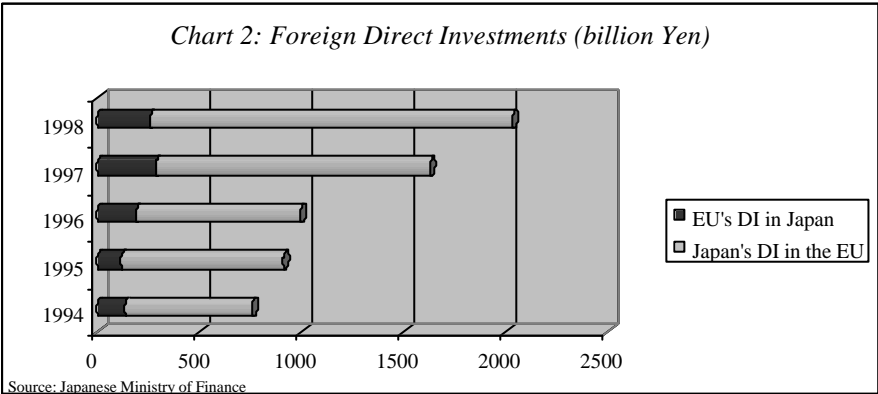
## **ECONOMIC RELATIONS**

The EU and Japan are major economic players. They represent respectively 20% and 10% of world exports and imports. They have close trade relations since Japan is the EU's third largest export market and the second largest source of imports into the EU. However, a remaining problem is the persistent Japanese trade and current account surplus. The figures are clear enough. While in 1999, the EU trade deficit with Japan decreased in comparison with 1998, it remains very large. The chart below shows that during the last 5 years, the EU trade deficit with Japan was always above 2,000 billion yen (with the exception of 1996). This clearly indicates a market access problem in Japan.



Moreover, 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. FDI remains a major indicator for the assessment of investment-trade linkages.

Keeping this in mind, the charts below are striking enough. Chart 2 illustrates EU direct investments in Japan and Japanese direct investments in the EU from 1994 to 1998. There is an evident imbalance between the two. At best, Japanese direct investments in the EU were around 4 times bigger than EU direct investments in Japan, at worst, they were around 7 times bigger (see chart 3).



Even if Renault was on the front page of many economic newspapers when it took the control of Nissan, these “success stories” must not hide the reality which is much less favourable to European businesses. This reality has been criticised by UNICE for a very long time with no real improvement in the position becoming evident. The EU institutions should push for a clear improvement in the openness of Japan to foreign investments.

## **MARKET ACCESS**

Market access and deregulation are often closely related issues, since in Japan the regulatory system that governs business has the effect of restricting market access.

UNICE believes that deregulation will benefit Japanese companies and consumers as well as foreign firms willing to develop their economic links with Japan. It is a win-win game in which the EU has considerable experience since the launch of the Single Market programme.

Japan introduced a deregulation action plan in 1995. It was extended in 1998 for three years. This second phase of the deregulation action plan consisted of about 600 reform items. Even if it is sometimes difficult to assess what would be the consequences of these reforms on the Japanese economy, UNICE welcomed the launch of this process which responds to a long-standing request. It welcomes the recent announcement by the Government of Japan that it will continue the process beyond the end of the three-year programme in March 2001.

It serves to put deregulation high on the political agenda. Public recognition in Japan that deregulation is necessary for the revival of the economy is of huge importance. UNICE is making every effort to promote and support this public policy and uses every opportunity (seminars, conferences, meetings with sister business organisations, etc.) to influence the debate on this issue in Japan.

UNICE also supports the two-way deregulation dialogue between the EU and Japan. In order to give more transparency to the system, it believes that a public annual review of implementation of requests should be set up.

UNICE has been promoting a “benchmarking” approach for internal market issues, a concept that was validated by the Heads of States and governments during the Lisbon Summit for European issues relating to economic and social fields. Similarly, in certain Council meetings, EU Ministers review the efforts made by Member States in specific fields. UNICE believes that this peer pressure is valuable and produces positive results. UNICE believes it is time for the EU institutions to adapt this successful concept to its external relations. It urges EU institutions to define with its Japanese counterparts such an instrument, taking into consideration the particular features of EU-Japan cooperation. A first step could be to set up a methodology such as the one used for assessing the implementation of EU internal market legislation into national law. This exercise should be sufficiently publicised. A review could be, for example, carried out each year during the EU-Japan Summit.

UNICE recognises that regulatory reform is a process which needs political involvement of public authorities and clear deadlines for achieving the goals agreed. The EU could share its experience of deregulation in putting the Single Market in place. UNICE believes it would be a mutually beneficial exchange of views.

Finally, UNICE considers that the method consisting of exchanging long lists of demands on market access issues should be complemented by definition each year, by both sides, of a short list of priority items. After discussion at official levels on these items, the respective

Administrations should then commit themselves to solving the problems within a clear timeframe. Again, an assessment of the results should be carried out.

UNICE supports the work undertaken by the Council of the European Business Community in Japan (EBC) and sees it as being helpful to the promotion of the interests of European firms. Regarding horizontal issues, UNICE urges that the following priority items be addressed in the next regulatory reform dialogue and that appropriate measures be taken in order to solve the existing problems (the following items are the “key issues” of the 2000 EBC report on the Japanese business environment):

1. Product approval: the restrictive and time-consuming product approval process and regulatory environment in Japan stifles the introduction of innovative products at competitive prices.
2. Regulatory burden: onerous licensing, filing and product distribution regulations further limit companies' ability to offer innovative products and services at competitive prices.
3. Standards harmonisation: increasing harmonisation with Europe and the rest of the world will expose Japan to international best practice and streamline the product approval process.
4. Regulatory transparency: the regulatory environment lacks transparency in Japan, which makes it difficult for companies to predict the consequences of business decisions and plan for new regulatory developments.
5. Regulatory oversight: in addition to expanding the scope of deregulation, the Japanese government should renew its commitment to promoting competition in the Japanese economy by refocusing regulation on companies with dominant position and, as has been accomplished in the financial sector, establishing independent regulatory authorities with a pro-competition mandate.
6. Accounting practices and financial supervision: Japanese financial accounting practices remain inconsistent and obscure, and market value accounting for current assets and liabilities is not adequately enforced.
7. Procurement: the government procurement process effectively eliminates competition in a number of important sectors and lacks transparency.
8. Government influence in the private sector: the Japanese government exerts too much non-regulatory influence over the private sector through procurement decisions, market activity and ministerial and bureaucratic guidance.
9. Tariffs: tariffs remain an important barrier to trade in key economic sectors. They should be tackled in the next WTO round of negotiations.
10. Taxation: the commitment of the Japanese government to bring the Japanese tax system into line with international practice should be made reality. Much more can be done to improve the Japanese investment environment, improve transparency in the tax system, harmonise tax standards with the rest of the world, and provide tax relief to companies working to overcome the challenging economic environment that has characterised Japan for much of the past decade.
11. Border controls: despite recent attempts to rectify the situation, port of entry procedures and facilities at Japanese airports and ports are still in urgent need of improvement.
12. Legal environment: the Japanese government should remove barriers within the legal profession to make it easier for companies to obtain the integrated legal services they need to do business in an increasingly international environment. Improvements should also be made to the legal process itself through improved disclosure laws, increased damage awards for intellectual property rights violations, and increased transparency in the commercial code surrounding merger and acquisition activity.

## **WTO**

UNICE is a strong supporter of the multilateral system. It considers WTO as the most important international organisation which most directly affects the activities of European companies. To strengthen WTO and to adapt the world trading system to the 21<sup>st</sup> century while addressing the growing concerns of civil society about globalisation, UNICE actively supports the launch of a new global round of WTO negotiations as soon as possible. This round should be comprehensive, concluded by a single agreement and take place on the basis of a timetable not exceeding 3 years.

So far, UNICE has worked closely with its Japanese counterparts to promote these objectives among political leaders. Their cooperation in the field has been fruitful and could serve as a model for other issues. They made every effort to make the Ministerial Conference of Seattle a success and, following its failure, UNICE is committed to continue its work with its Japanese counterparts for relaunching the process. UNICE believes that conclusions should be drawn from the failure of the Seattle Conference. The agenda of the new Round should benefit all WTO partners, address the concerns of civil society and improve transparency of the WTO.

## **MUTUAL RECOGNITION AGREEMENT (MRA)**

Since 1995, the EU and Japan have discussed an MRA on testing and certification. This agreement concerns four sectors: electrical equipment, telecom equipment, pharmaceuticals and chemicals.

This kind of agreement must not be detrimental to the discussions held at multilateral level. Consequently, MRAs must be ahead of what is discussed in these fora to serve as examples. They must in no way be seen as a brake on harmonisation in this field at a multilateral level. An MRA on testing and certification should now be agreed without delay. UNICE asks the EU institutions to be very firm in their stance, and to continue to press their Japanese counterparts to implement the agreement.

UNICE believes that such an agreement would represent a major tangible success for EU-Japan cooperation on which both parties could build closer collaboration. This would represent a positive momentum which could help advances in other fields.

## **EU-JAPAN BUSINESS DIALOGUE ROUND TABLE**

UNICE fully supports the EU-Japan Business Dialogue Round Table (EUJBDRT) as a means of strengthening the EU-Japan business relationship. UNICE believes that this CEO-led process should be supported by representative business organisation on both sides. It strongly favours a progressive and pragmatic approach and warns against duplications with existing fora. It is necessary to ensure the representativeness and the legitimacy of the process as well as coherence of positions with those taken in other fora. UNICE is ready to provide inputs on horizontal issues and WTO-related matters.

UNICE believes it important that work be pursued on the basis of the recommendations made during the second meeting of the EUJBDRT (17 and 18 July 2000) regarding early introduction of rules/systems suitable for corporate activity, increased transparency and efficiency of the regulatory environment, conclusion of the EU-Japan mutual recognition agreement, establishment of international rules, promotion of international standardisation/harmonisation and of standardisation projects by the private sector initiative, development of IT industry and electronic commerce. UNICE also supports the policy statement on WTO adopted on that occasion.

UNICE stresses the importance of the implementation of the recommendations and welcomes the setting-up of a mechanism to monitor implementation by the governments of the recommendations made.

## **CONCLUSION**

UNICE will monitor closely the evolution of the EU-Japan relations and awaits with interest the forthcoming new co-operation framework.

UNICE is ready to contribute to the discussions in order to build a more broadly-based partnership, encompassing a wide range of issues of global importance 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.