

## Relations between the European Union (EU) and Japan

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### Abstract

*The present paper has as its starting point two well-developed economies, the European Union and Japan, representing an eloquent example of a successful partnership. Through the right techniques and tactics, the negotiation between them bore fruit, developing the economy and infrastructure of both countries. This cooperation has opened the doors to new opportunities, new markets, free international trade, numerous investments, a trade policy based on values as well as sustainable development.*

*The era of globalization and multilateral negotiations (early 2000s to the present) sees a major leap in the creation of multinational corporations, which expand into the world market. The need to solve global problems, combining national and global interests, puts multilateral negotiations first, making these problems even more topical.*

**Key words:** European Union, Japan, GDP, export, import

**J.E.L. classification:** J21, J26

### 1. Introduction

The purpose of the EU was to create a free market so that member countries can enjoy the free movement of goods, people, services offered, security, fluent migration, strong external relations. Its resources are used for the development of the transport and communications infrastructure, the support of small and medium-sized businesses that reflect 99% of all European enterprises, the strengthening of educational systems. The EU has scrapped a whole host of legal barriers to make things easier in the single market, so increased competition has driven down prices and diversified choices. The European Union's investment fund has mobilized around EUR 439 billion, supporting 1.1 million jobs, which is set to grow even more (<https://op.europa.eu/>).

### 2. Literature review

Japan represents the third, most developed economy worldwide, being succeeded by the USA and China. Even though this country lacks natural resources, being dependent on imports of raw materials, its economy is particularly advanced. The country's development slowed in the 1990s due to high asset prices which only improved in the 2000s, then in 2011 due to the complete shutdown of nuclear reactors. Thus, the Japanese government implemented a tough monetary easing policy, during which time the country made enormous progress in suppressing deflation.

#### ***Economic and trade relations between Japan and the EU***

Japan is the EU's most essential partner. Even against the backdrop of cultural and structural factors, both economic studies and public consultation have pointed out that bilateral trade volumes are not as high as might be expected between major developed economies. The need to revitalize EU-Japan bilateral trade and underlined the perception of considerable unrealized economic potential. This untapped potential in EU-Japan trade relations was at the heart of the decision to launch negotiations for a bilateral trade agreement. To fully unlock the trade potential of EU-Japan relations, which would in turn bring considerable benefits to both partners in terms of economic growth and jobs, an agreement needed to go beyond purely tariff aspects. Since the beginning of the negotiations, special attention has therefore been paid to issues such as non-tariff measures (ie the

type of technical barriers that have long been perceived as one of the major reasons for low levels of trade and investment), services, issues related to procurement and corporate governance. The total of these two economies represents 40% of world GDP, covers 30% of trade and provides about 50% of the world's total foreign investment ([https://trade.ec.europa.eu/doclib/docs/2017/september/tradoc\\_156051.en12.pdf](https://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156051.en12.pdf)).

The vector that coordinates the bilateral partnership and financial competitiveness, for the EU is the provision of the Lisbon Agenda, and in the case of Japan it is the structural reform. In commercial terms, these two countries signed a Mutual Recognition Agreement in 2002, which legalizes the access of products to both markets. In 2013, the EU and Japan successfully completed negotiations on the cancellation or reduction, in certain situations, of both tariff and non-tariff barriers.

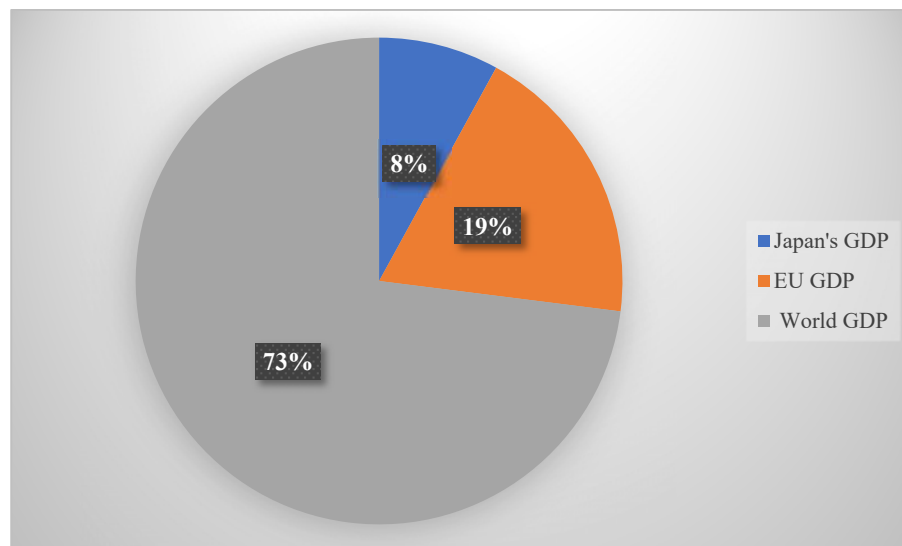
Another important instrument is the Economic Partnership Agreement proposed in 2013 and successfully concluded on February 1, 2019, which aims to solve problems in several areas: health, naval and air transport, environmental issues, telecommunications, job availability qualitative, public tenders. Through this agreement, 98% of tariffs between these two countries were eliminated, regulations and provisions in the property rights sector were harmonized, and climate change occurred.

### ***The economies of the European Union and Japan***

The alignment of these two economies has consequently facilitated collaboration in the field of modern technologies, products and services. Over the past decade, Japan's share of imports to non-EU countries has decreased from 5.7% in 2010 to 3.9% in 2020. Exports have also decreased, from 3.9% to 3.3% ([http://www.imm.gov.ro/audaugare\\_fisiere\\_imm/2018/11/INDRUMAR-DE-AFACERI-JAPONIA-2019.pdf](http://www.imm.gov.ro/audaugare_fisiere_imm/2018/11/INDRUMAR-DE-AFACERI-JAPONIA-2019.pdf)).

The GDP of Japan and the European Union, according to the chart shown below, adds up to 27%, which is almost a third of the world's GDP which is 73%.

*Figure no. 1 EU and Japan GDP relative to World (%)*

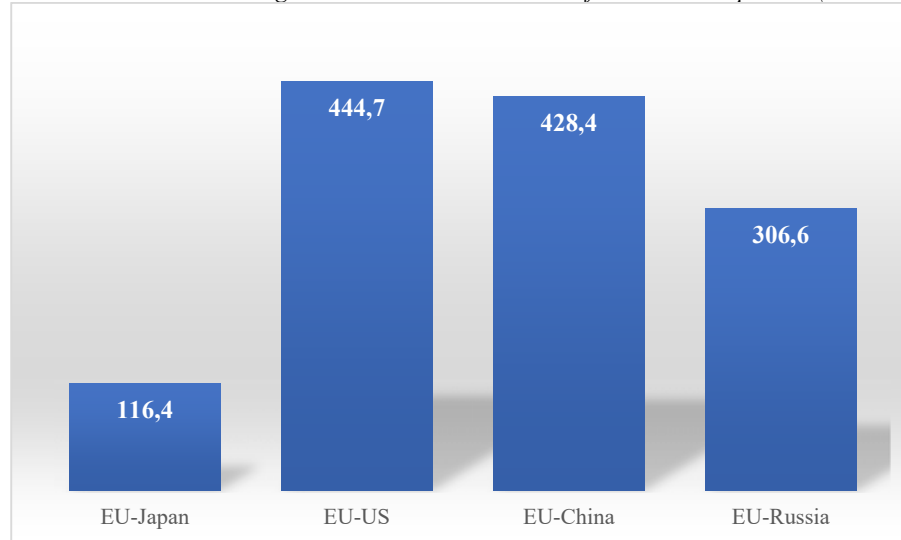


Source: World Bank

Bilateral trade in goods between the EU and Japan is much lower compared to the most economically developed countries.

According to the graph, the entire volume of trade between the European Union and Japan is only EUR 116.4 billion, compared to the world's most advanced economies. Thus between the European Union and the USA the import and export of goods represents EUR 444.7 billion, EUR 328.3 billion more than in the case of Japan, between the EU and China EUR 428.4 billion, and between the EU and Russia EUR 306.6 billion EUR.

Figure no. 2 Bilateral trade in goods between the EU and the four economic powers (million EUR)



Source: World Bank, <https://databank.worldbank.org/indicator/>

A potential 70% increase in EU export goods to Japan and a 60% increase in Japanese exports to the EU are expected if tariffs are reduced or completely eliminated (Rocio, 2021, p.87).

### 3. Research methodology and findings

#### *EU-Japan cooperation agreement*

The cooperation agreement between the EU and Japan (table no. 1) aims at the mutual promotion of interests and values, the free access of the EU countries to the huge market of Japan, the establishment of new companies and enterprises, therefore, numerous jobs for the population, the establishment of a global trading system, guaranteeing the protection of EU standards and importance.

In this way cooperation will become the most effective way to deal with global problems.

Table no. 1 EU-Japan trade agreement in figures

Value of EU exports of goods to Japan	EUR 58 billion
Value of EU services exports to Japan	EUR 28 billion
Number of jobs offered by the EU to Japan	600.000
Number of people employed by Japanese companies in the EU	550.000
Amount of tariffs paid by EU exporters to Japan	1 billion EUR/year
Estimated increase in EU processed food exports to Japan	Over 50% or €1 billion
Estimated increase in EU chemical exports to Japan	Almost 7% or an additional EUR 1.6 billion
Estimated increase in EU exports of textiles, clothing and leather to Japan	22% or an additional EUR 5.2 billion
Number of EU companies exporting to Japan	Almost 74,000; 78% of them

Source: <https://trade.ec.europa.eu/>

The two great powers have come to the conclusion of the need to conduct negotiations in order to sign an agreement that will allow the active import and export of goods and services, numerous investments in various branches of the economy as well as business projects, which will facilitate collaboration much more fast and efficient between the EU and Japan, removing structural obstacles and strict aspects of Japanese culture.

In conclusion, both economic powers face certain interdependent needs whose achievement can only be met through cooperation between them. Noting that needs are continually diversifying and expanding as greater possibilities are created to satisfy them, this situation will be the justification for a long-term collaboration.

Modern production technologies, the low level of inflation, the efficient distribution of profits, are just some of the reasons that achieve a strong environmental change, opening the way to new horizons and opportunities (Ghauri, 2005, p.36).

The negotiation between two powers will greatly influence the situation of both economies, guaranteeing promising perspectives, influence on the market, the quality and efficiency of products and services, the level of increased demand in the market and a much more diversified offer (Gross, 2012, p.126). In conclusion, the trade negotiation between the EU and Japan does not signal any concern but rather a fruitful success.

- The EU-Japan Trade Agreement has improved the economy in several areas, in particular:
- Japan has eliminated over 90% of customs duties and non-tariff barriers for approximately 96% of goods exported to the Japanese market.
- As a result of these eliminations, EU exporters have gained over €1 billion per year due to customs duty savings.
- Taxes on chemicals, cosmetics, textiles, clothing and plastics have been eliminated.
- All fishing demands have been canceled by both sides.
- EU consumers currently benefit from both fresh fish and fish products imported from Japan at a better price, as well as profitable export opportunities for the European Union.
- Forestry tariffs for wood products have been completely eliminated.
- Japan has also pledged to fight illegal logging. Both the EU and Japan have introduced surveillance systems to combat illegal timber imports.
- The agreement highlighted the mutual obligation of the European Union and Japan to guarantee that all technical standardization and regulatory systems are based on international norms. This has pleased exporters of pharmaceuticals, chemicals, textiles and electronic devices.
- The EU has come to export services to Japan, with services trade evolving every year. The agreement gave European firms the chance to provide services to the Japanese market much more easily.

- o In the postal services sector the agreement provided for universal service obligations, standard border procedures, a level playing field for European courier and postal service providers and Japanese adversaries.

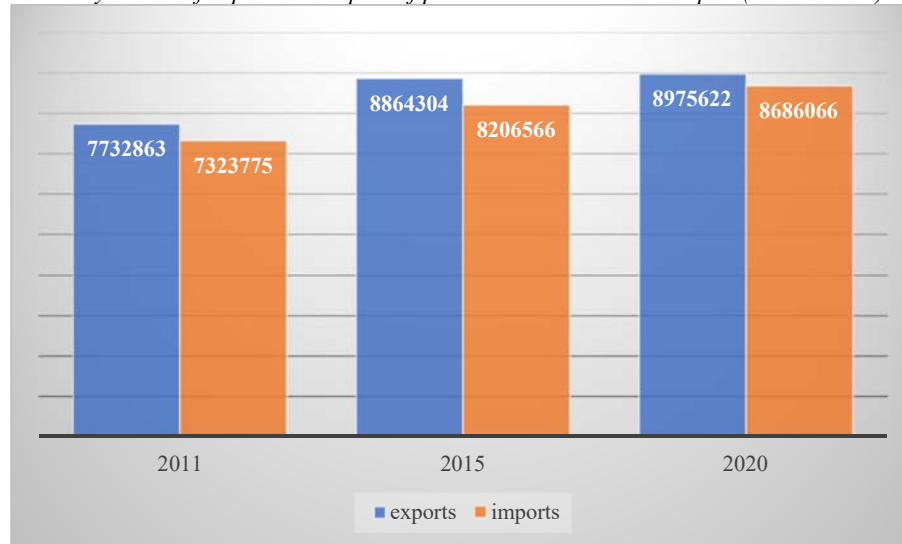
- o In telecommunications, the agreement involved regulations based on mandatory confidentiality of communications, roaming operators, portability of contact numbers.

- o In the international maritime transport services sector the agreement included the duty to maintain open and non-discriminatory access to ports, access to maritime services (transport or deliveries).

- o The agreement highlighted explanations and exceptions regarding financial services, self-regulatory bodies, transparency, payment and compensation method (Timothee, 2021, p.123).

The export of goods and services in Japan increased by 46,923 thousand dollars for 4 years, and the import increased by 224,506 thousand dollars.

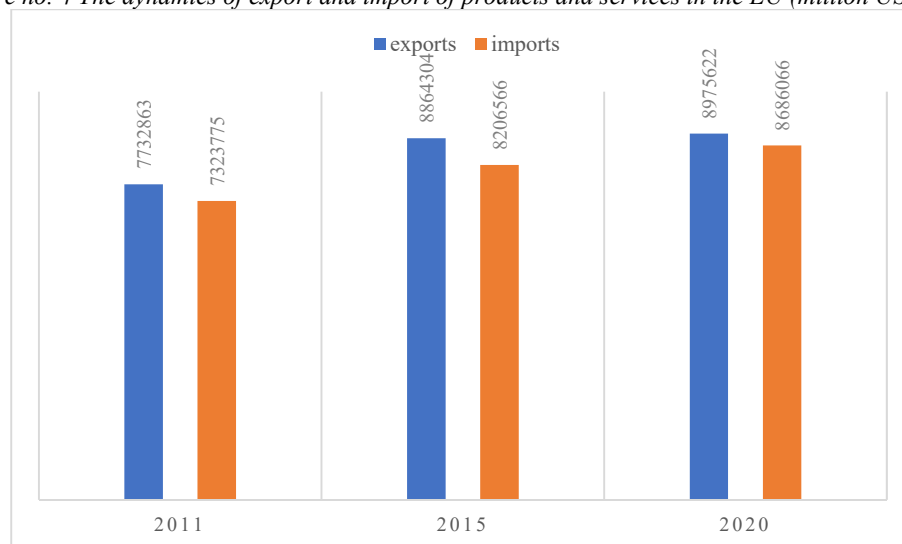
Figure no. 3 Dynamics of export and import of products and services in Japan (million USD)



Source: <https://unctadstat.unctad.org>

The European Union also recorded significant progress in this regard, with exports increasing by 1,242,759 million dollars more than in 2011, and imports progressing by 1,362,291 million dollars.

Figure no. 4 The dynamics of export and import of products and services in the EU (million USD)



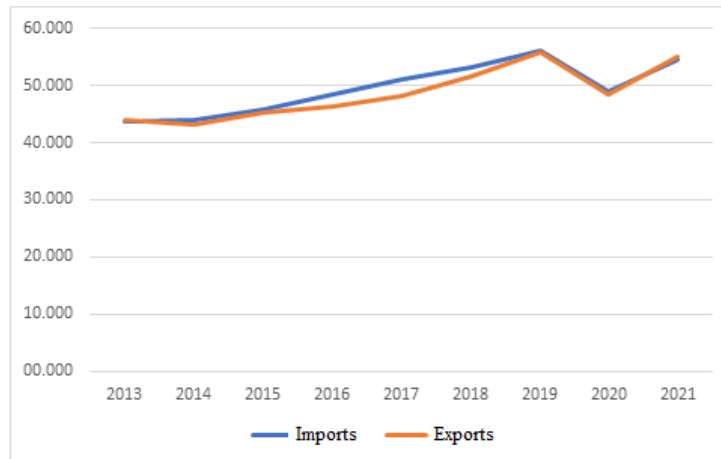
Source: <https://unctadstat.unctad.org>

### **The EU-Japan relationship**

Japan is an important strategic partner for the EU and a key ally in the Asia-Pacific region. It is a long-established democracy with a clear commitment to the rule of law and free and fair trade. As advanced, industrialized democracies, the EU and Japan have strong economic and political ties and cooperate closely with each other in international and multilateral fora such as the United Nations, the World Trade Organization and the Group of 7 and the Group of 20.

The negotiation process in the liberalization of trade exchanges began in 2013 and was completed in 2019. An aspect that must be emphasized is how trade flows have evolved during this period and until now. Figure no. 18 shows the import and export relations between the EU and Japan.

Figure no. 5 Effects of Covid-19 on imports and exports of goods from the EU to Japan (billion EUR)



Source: Eurostat, [www.eurostat.com](http://www.eurostat.com)

Trade flow trends have been steadily increasing since 2013, reflecting the effectiveness of these agreements. In the 2015-2019 period, Japan's exports exceeded those of Europe, but even so, the export growth trend was maintained in both directions.

The COVID-19 pandemic has severely affected the industries of the European Union (EU) and Japan. There were disruptions to multiple supply chains across a variety of sectors, particularly early in the crisis (March-April 2020). Unprecedented policy responses have been initiated in Europe and the world in an attempt to mitigate the impact of this economic shock and help recovery. However, the pandemic has created great difficulties for collaboration within the signed agreement. In the figure above, a very well emphasized deviation can be observed at the beginning of the pandemic. The EU-Japan Economic Partnership Agreement has been in force for three years. It has proven to be the cornerstone of the EU-Japan economic relationship during this time, with goods trade between the two partners reaching €125 billion in 2021, returning to pre-pandemic levels.

In addition to strong trade and investment relations, the EU and Japan are allies who share similar values and are united in their opposition to Russia's invasion of Ukraine.

Sanctions against Russia and Belarus were closely coordinated by the EU and Japan. Moreover, Japan has recently demonstrated its solidarity with Europe by channeling excess liquefied natural gas to the EU, and the two partners have confirmed that they will continue to cooperate on energy security, particularly through trade and investment in renewable energy capacity. In their response to the epidemic, the EU and Japan are also committed to international solidarity. With more than 340 million doses imported to date, Japan is the most popular destination for EU-produced COVID-19 vaccinations (<https://policy.trade.ec.europa.eu/news/eu-japan-trade-bounces-back-pre-pandemic-levels-2022>).

The new EU-Japan trade agreement also has implications for the world trade order, as it has strengthened the EU's role in setting global trade standards, thereby assuming a leadership role in global trade policies. With the successful conclusion of the EU-Japan trade agreement, the EU has also strengthened its trade ties in the Trans-Pacific Partnership area, the world's most dynamic economic region. The deal allows the EU to enforce its own rules and standards with a major Pacific economy.

#### ***The relationship between Romania and Japan***

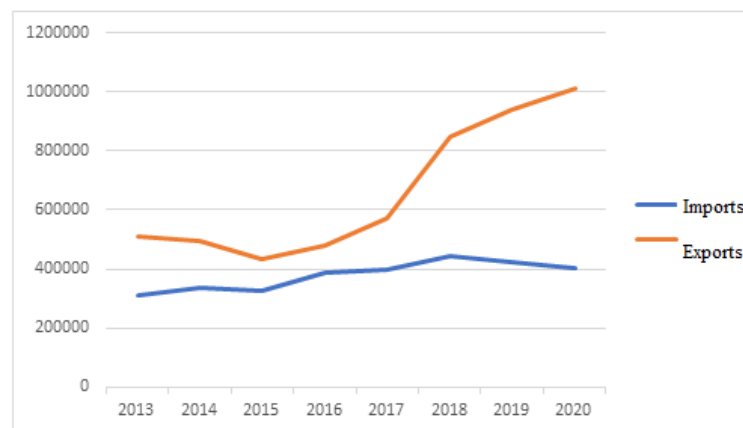
EU countries are not a homogeneous group, they have a different production structure and level of economic development. It is well known that most of the so-called "old" EU member states (the composition of the EU before 1 May 2004) are developed countries. In terms of GDP per capita and Human Development Index, they are Germany, Luxembourg, Ireland, Sweden, Netherlands, Denmark, United Kingdom, Finland, Belgium, Austria, France. On the other hand, some of the "new" EU member states (EU member states after 1 May 2004) have a substantially lower level of economic development and competitiveness (eg Bulgaria, Romania, Croatia).

Romanian companies that export to Japan benefited from the agreement. Exports to Japan, worth 233 million euros, and imports of 346 million euros, make this country Romania's 13th largest commercial partner outside the EU. Currently, there are 271 companies from Romania, with 21,268 employees, that export to Japan products such as car components, aluminum carpentry or mineral water, according to a press release from the European Commission Representation in Romania

(<https://documents1.worldbank.org/curated/en/473331580296321439/pdf/Romania-Catching-Up-Regions-Metropolitan-Romania.pdf>).

Romania, as an EU member country, benefits from the provisions of the established agreement, but the situation is more complex than in the European Union as a whole. On the one hand, the Romanian market can benefit from Japanese goods at prices that do not include additional taxes, as they are very competitive on the market. At the same time, the level of exports to Japan from Romania, according to figure 19, have evolved insignificantly since the beginning of the negotiations, registering figures 2.5 times lower than Japanese exports at the end of 2020.

Figure no. 6 The effects of Covid-19 on imports and exports of goods from Japan to Romania (million USD)



Source: UNCTAD, [www.unctad.com](http://www.unctad.com)

Analyzing the graph above, we conclude that Japan was able to strengthen its position on the Romanian market, doubling its exports following the facilities within the negotiated agreement. Despite the critical situation in the world caused by Covid-19, goods imported into Romania reached USD 1,000,000. Romanian exports, however, did not evolve much, remaining constant in the same period, registering a figure of USD 400,000.

#### 4. Conclusions

Creating a war is easier than maintaining peace, resulting in the idea that achieving a negotiation process to resolve certain disputes is quite difficult and requires skills and knowledge gathered over time.

Through this paper I have tried to create an overview of the principles on which the ties between the EU and Japan are based, highlighting a series of strategies, techniques and tactics practicable in international business, through the theoretical and practical components. The complexity of the current social, economic and political field, the variety of business types of economic agents, make negotiation one of the most valuable attributes of contemporary society. In this sense, negotiation is used to respond to the complex difficulties resulting from the need for the permanent development of interpersonal connections, in particular, diplomatic and economic ones.

A real example is Japan and the European Union, the negotiation between them having the role of establishing a partnership relationship. Thus, non-tariff customs duties were eliminated, trade in goods and services was stimulated, numerous investment opportunities were created, travel and population migrations between states were facilitated, both the economy of these two powers and the ecological sphere evolved, imposing certain restrictions to save and protect the biosphere. The

participating parties interacted in the aspiration to reach a mutually acceptable and profitable solution to the issues in all areas under discussion.

The outcome of the relationships depended to the greatest extent on the attributes and qualities of those who maintained the relationships, these differing according to family values, the culture of the country of which they belong, friends, their own interests. In this sense, the Japanese, showing respect, training, intelligence, good preparation, cold thinking, and on the other hand, the EU showing punctuality, attention to every detail, calmness, politeness and accuracy created a partnership, which proved to be successful.

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