

Report on the Japan-EU Business Seminar(Paris)

- Future visions of EU-Japan partnerships for economic growth-

On 9th October 2012, JETRO held a seminar with Sciences Po. Paris on The Future of EU-Japan Partnership for Growth.

Speakers from government, academia and industry discussed the impact of the EU-Japan Economic Partnership Agreement (EPA) or Economic Integration Agreement (EIA) on the economic growth in both Europe and Japan. Mr Soichi Yoshimura, Executive Vice President of JETRO and Mr Koji Toyokuni, Director general of JETRO Paris, took part and emphasized the importance of this agreement as a tool for activating trade and investment as well as for achieving economic recovery.

<Huge potential economic impact of the EU-Japan EPA/EIA>

In his opening remarks, Mr Yoshimura of JETRO pointed out that Japan and Europe share challenges such as aging populations and the need for economic growth when emerging markets continue to expand their presence in the world economy. At the same time, Japan struggles to rebuild the country after the devastating earthquake and Europe tries to avoid a downside risk stemming from its debt crisis. He asserted that the EU-Japan EPA/EIA would provide a new momentum necessary to resolve these issues and boost EU's GDP by € 42.9 billion, exceeding the estimation for two other agreements under negotiation, i.e. the EU-Canada agreement is supposed to increase EU's GDP by €10.1 billion and the EU-ASEAN* agreement by € 4.4 billion. Hence the significance of potential impact of the EU-Japan EPA/EIA. Towards the realization of these agreements between Europe and Japan, Mr Yoshimura explained, "JETRO carries out various projects, publishing, for example, procurement information in English on its own Website for the purpose of improving access of European companies to Japanese public procurement market".

The 1st session was to define the significance and the economic impact of the EU-Japan EPA/EIA as well as to analyze the current situation of automotive sector and the public procurement market which are major concerns of the EU. According to Mr

Yorizumi Watanabe, Professor of Keio University, Faculty of Policy Management, while a number of economic integration initiatives such as the TPP(Trans-Pacific Strategic Economic Partnership Agreement), ASEAN+3**, ASEAN+6***, FTAAP (Free Trade Area of the Asia-Pacific) are underway, "business-driven integration through foreign direct investment" is also in course in Asia. Having concluded thirteen EPAs so far, Japan is likely to conclude EIAs with Cambodia, Myanmar and Laos *in East Asia* and will probably join the TPP *in the Pacific-rim region* in order not only to deal with tariff reduction but also to enable rulemaking on competition, investment and public procurement transparency. These two policies will lead to the FTAAP around 2020-21. By joining the TPP negotiations, the US has succeeded in associating herself with the dynamic development of the Asian economy. Prof. Watanabe recommended that the EU conclude an EPA/EIA with Japan in order also to fully take advantage of the economic growth of this region, because this agreement could make Japan a platform to East Asia for the EU countries.

Mr Kenichi Kawasaki, Consulting Fellow of the Research Institute of Economy, Trade and Industry (RIETI) analyzed the macroeconomic effects of an EU-Japan EPA/EIA by means of simulation. The macroeconomic benefits of trade liberalization on bilateral basis would be the largest with China, followed by the EU, Japan, and the US, depending on the economic structure of each country. There are also variations in negative effects for non EPA signatory regions as well as in positive effects observed by signatory regions. It is important to work on EPAs in a comprehensive manner so that the economic integration will be achieved not only by trade liberalization but also through rulemaking in services and investment. As for the economic impact of interregional EPAs, the trade liberalization through the elimination of tariffs on goods in East Asia including China is supposed to boost Japan's GDP. However, if the framework of economic integration is widened to include rulemaking in services and investment, the economic impact would be more significant with developed countries like the US, the EU and so on. He pointed out that the EU would benefit from the bilateral FTA with Japan, China and the USA, etc. but negative effects of FTAAP or TPP to be concluded without the EU must be more significant than this benefit. Failing to ride the East Asian wave of trade liberalization might have a seriously negative

impact on the EU economy.

While 10 industrial federations including chemical, services and IT sectors have announced a statement supporting the EU-Japan EIA, the automotive industry remains cautious. Mr Hosuk Lee-Makiyama, Director of the European Centre for International Political Economy (ECIPE) examined the assumption that free trade agreements damage European automotive industry. The EU's largest trade surplus with the world is on cars. Premium and large-sized cars in particular show a yearly increase of 10%. The trade balance on smaller sizes is in balance. While judging it doubtful that the automotive industry would not benefit from trade liberalization, he asserts that the Japanese market is not closed to European cars. The share of cars in EU exports to Japan is 1.5 times higher compared to other countries. French export of premium and large-sized cars to Japan is 4 times higher than their exports to other regions. Although European cars are sold at a 90% mark-up in Japan compared to European listed prices, Japanese consumers still buy them. In addition, Europe is the most unprofitable market; car builders exporting to non-EU countries are recording unprecedented profits. There is little chance for a recovery in automobile demand in EU countries. The largest car markets are located outside the EU and the survival of automotive industry rests on exports".

The European commission alleges that the public procurement market in Japan is closed and asks for easier access as one of the conditions for starting EIA negotiations. According to Mr Sébastien Miroudot, Trade Policy Analyst of the Organization for Economic Cooperation and Development (OECD) Trade Directorate, "it is difficult to measure the degree of openness of public procurement markets. When the Commission claims that the public market is more closed in Japan than in Europe, this claim is based on commitments under the WTO Government Procurement Agreement (GPA) covering contracts of certain threshold values as well as certain entities only. If we use another method based on real imports in public sectors, Japan's openness ratio is higher than France or Germany. Openness ratios in the US and the EU27 countries are almost at the same level. Chinese market is the most open. If the principle of reciprocity is followed, the EU should open further its public procurement market to

China. This principle does not seem convenient either when we have to seek for a better competitiveness of public sector or expenditure cuts on public services.

Answering a question from an audience "Why do foreign cars sell at higher prices in Japan?", Mr Lee-Makiyama explained : "Japanese consumers have a strong appetite for French luxury brands. Although China and Japan are on a par in terms of GDP, Japan consumes twice as much compared to China. This is the reason why European companies must rapidly enter Japanese market. As an economic integration being in progress at a rapid pace in Asia, European companies without determined actions might hardly be able to penetrate this market over the next ten years".

< Importance of rulemaking in investment >

During the 2nd session, the panelists discussed the future of the EU-Japan partnership for growth from the industrial standpoint. Mr Koji Toyokuni, Director General of JETRO Paris explained trends in trade and investment between Japan and EU countries along with their background, as well as the possible impact of an EU-Japan EIA. Japan's trade surplus with the EU is shrinking steadily, to a large extent for structural reasons. While this trade surplus used to be headed by cars, Japanese manufacturers are switching to producing in Europe. Mr Toyokuni supposes this trend will continue and the imports of Japan-assembled cars in Europe will decrease. Instead, the production by Japanese car builders in Europe will be expanded, bringing about a revitalization of the EU economy. Regarding EU exports to Japan, he said: "Japan's aging population is boosting the demand for pharmaceuticals. There are a number of competitive pharmaceutical companies in Europe, and European exports of chemical and pharmaceutical products to Japan are increasing. For instance, Sanofi, a leading French pharmaceutical company employing 3000 staff in Japan considers its Japanese subsidiary as a foothold in Asia. Sanofi has also established, in June 2012, a marketing JV with a Japanese firm. I presume all these factors will contribute to the expansion of European exports to Japan". As to the measures being taken by the Japanese government to eliminate Non Tariff Barriers, he underlined that "harmonization of EU-Japan standards is underway not only in automobile sector but also in food additives and medical sector".

Mr Tetsuya Yamada, Senior Coordinating Executive in charge of public relations, Toyota Motor Europe, spoke of Toyota's activities and its contribution to employment in France. Toyota started producing Yaris (called Vitz in Japan) in 2001 at its Onnaing factory located in northern France, and currently operates 5 facilities in France including a logistics center and a design studio, thus employing more than 8000 staff. Since 1990, Toyota has already invested over €1billion in France. In cooperation with public bodies, local governments and French firms, Toyota conducts plug-in hybrid car demonstration projects in Grenoble, Strasbourg and so on. In the Czech Republic, it runs a joint manufacturing operation with the leading French car maker, PSA Peugeot Citroën, which will supply Toyota with light commercial vehicles under an OEM agreement from the 2nd quarter of 2013. Mr Yamada added: "Both Japan and Europe are mature markets. There needs to be a system enabling both Japan and Europe to achieve sustained growth under increasingly severe economic circumstances."

Mr François MARION, Vice President Corporate Strategy & Planning of VALEO, asserted the importance of the Japanese market. "Valeo considers Japan as one of the pillars of its corporate strategy", he said. "Japan has announced a significant reduction in CO2 emissions, and this offers huge opportunities for the sector". On the contrary, an EIA will have limited impact on Valeo's operation so far as trading volume between these geographically-large zones is limited. The intra-regional trade flows in Japan, Asia or Northern America are, indeed, larger than inter-regional flows between the EU and Japan or between the EU and the US. The smooth investment is crucial for Valeo as the auto equipment market requires local production. Regulatory convergence between our two regions aiming at CO2 reduction, etc. is desirable. For example, cars equipped with Stop-Start system developed by Valeo are classified as hybrids in Japan, not in Europe. It is also commendable that foreign companies can benefit from R&D support in Japan in the form of government grants and so on. The organization of Japan's car market formed by powerful Keiretsu (informal business groups) itself is one of the obstacles for foreign enterprises to penetrate the Japanese market. This kind of strong capitalistic and strategic tie between car equipment manufacturers and car makers does not exist in Europe. This structural difference between our two regions

makes it difficult for both to open markets in a totally equitable manner, Mr Marion concluded.

Mr Takayuki SUMITA, Director General, Japan Machinery Centre for Trade & Investment in Brussels, who chaired the seminar asked to Mr Marion, "Entering the Japanese market is said to be difficult. Would you say that Japan is the market where efforts can be compensated ? Mr Marion answered: "There are difficulties but our efforts have resulted in threefold sales increase.". To the question of an audience "How did Valeo succeed in joining Keiretsu ?, he explained: "There are two ways to enter Keiretsu. One is to invest in group companies and the other is to propose new and innovative products". Mr Sumita continued: "In Japan, the ability to develop new products is crucial. Curious-minded, Japanese people are keen on new products, and do not mind paying high prices if it meant to get new products of good quality. Other foreign companies, following the lead of Valeo, may also have chances to succeed in Japanese market".

Mr Yamada of Toyota Motor Europe explained: "European cars seen as precious foreign products in Japan sell at even high prices. While Japan-assembled cars imported from Japan represented 3.9%, the Japanese cars produced locally in European countries accounted for 7.8% of the EU car market in 2011. On the other hand, European cars recorded a 5.5% market share in Japan the same year ". He thus stressed that the Japanese market is far from closed to European cars". As for the potential impact of an EU-Japan EIA on Toyota, he said: "The European automobile market is in a tough situation, whereas Toyota employs 8000 people in France. If a mechanism to revitalize the economy of our regions were created within the framework of the future EPA/EIA, that would hopefully provide an incentive to maintain or further develop our employment in France".

Finally, Mr Patrick Messerlin, Professor and Director of Groupe d'Economie Mondiale of Sciences Po. Paris, outlined the two main advantages of an EU-Japan EIA for the EU. First, we can avoid disadvantages that European companies will inevitably encounter when Japan, the world's third largest market, will join the TPP. For example,

European agricultural and food products would hardly be able to keep their market in Japan when the country will be integrated to TPP and, for those products, penetrating Japanese market would then be harder than ever. And secondly, Japan closely integrated to Asian markets could serve as a privileged tool available for European companies eager to develop their businesses in Asia, the largest and most dynamic region in the world.

(Shigenobu Watanabe, Deputy Director General & Aki Yamasaki, Senior Economist)

N.B.

The Japanese government provides the subsidy program destined for global companies establishing their Asian regional headquarters or R&D centers in Japan, covering a part of their operating expenses.

Several companies such as Umicore, a Belgian company of industrial chemical products including catalysis, or DCM Japan Engineering Plastics, a Dutch company of chemical products including plastics, were granted this subsidy in 2011.

(See JETRO global website

<http://www.jetro.go.jp/en/invest/newsroom/announcements/2012/20120727754.html>)

*Asean : Indonesea, Malaysia, Philippines, Singapore, Thailand, Brunei,
Myanmar, Cambodia, Laos, Vietnam

** Asean + 3 : + Japan, China, South Korea

*** Asean + 6 : + Japan, China, South Korea, Australia, India, New Zealand