

Pawel Pasierbiak

Maria Curie-Skłodowska University in Lublin

BARRIERS OF THE DEVELOPMENT OF THE EUROPEAN UNION'S EXPORTS TO JAPAN

Abstract: The author has focused on a task to indicate barriers which reduce European Union's exports to Japan within the period of 2000-2009. Traditionally existing structural barriers have been losing their importance, while tariffs also do not constitute the main obstacle to exports. Main impediments come from utilization of non-tariff measures. Japanese norms, standards, certification procedures and a lack of acceptance of evaluations made by the EU exporters or international bodies form an efficient barriers in the development of the EU's exports to Japan. A reduction of these barriers could implicate a strong welfare effect as the value of exports would increase.

Key words: international trade, trade barriers, foreign trade policy.

1. Introduction

Trade ties are still the most important economic relations which connect countries in the international division of labour. Growing economic interdependence of the globalized world is a consequence of international trade development which is the consequence of bilateral ties between countries. The majority of developed countries are both exporters and importers of goods which allow them to gain what is in the literature referred to as the benefits of economic openness. But not every country is equally interested in a policy of economic openness which is based on creation of good conditions to simultaneous exports and imports of products. Such an approach arises from the fact that every country, discerning positive effects of exports on its economy, wishes to increase this flow, while on the other hand, a desirability to protect its internal market from "excessive" competition often forms an important goal of a foreign economic policy realized by the government.

A country, which has been running traditionally perceived as *quasi*-mercantilist trade policy, is Japan. Such a perception was based mainly on a dynamic exports growth after the Second World War, together with a low level of imports. Additionally, developed countries which could not manage with growing trade deficits with Japan in such a way were expressing their dissatisfaction. The United States and members of the European Communities claimed that the main cause of failures of their enterprises trying to reach the Japanese market were barriers their product had

to face. On the other hand, Japan was claiming that the level of its market protection is not as high as in other developed countries.

Countries of integrated Europe started to show deficits in their trade balances in the late 60s of the 20th century, and this phenomenon was a permanent feature of trade relations of partners. Attempts at lowering the deficits led to temporary and shorter successes, which also gave ground to statements about the existence of real trade barriers towards the EU's exports to Japan.

The aim of the article is the indication of current barriers which impede development of EU's exports to Japan. The reduction of these obstacles could deepen trade interdependence between these two important centres of the world economy. The method used in the research is based on an analysis of phenomena and processes along with their description, while the period covered concerns years between 2000 and 2009.

2. Exports development of the European Union into Japan in the years 2000-2009

In the analyzed period international trade development was relatively high. The beginning and the end of this period are, as a matter of fact, indicated by a global slowdown (2001) and an economic recession (2008-2009), but generally there existed good conditions for the intensification of international trade. The statistical data confirm this phenomenon. They show that between 2000 and 2009 the value of international trade increased from 6.5 trillion to 12.5 trillion USD.¹ If we take the year 2000 as 100, in 2008 the exports volume index achieved 149.² Equally dynamic changes took place in the EU's trade, where in the years 2000-2009 the export value increased by 86% (from 2.5 trillion to 4.6 trillion USD), but in Japan exports increased by 21% (growing from 479.2 to 580.9 billion USD).³

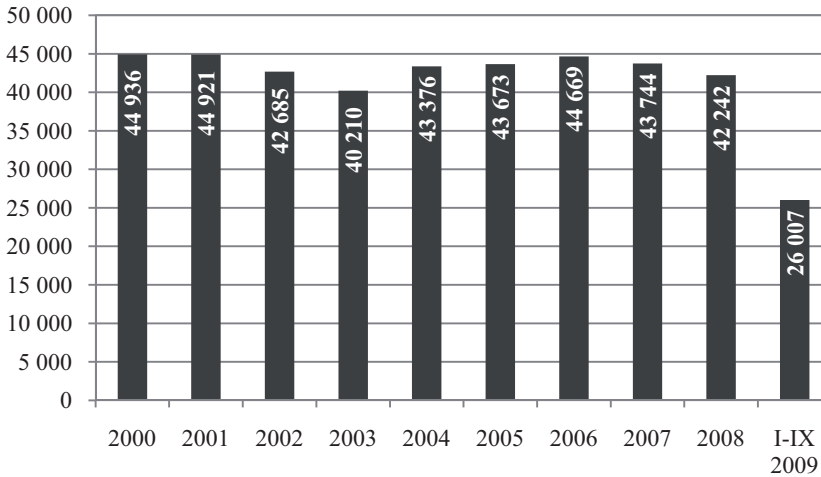
Tendencies which took place in an international trade development did not occur in bilateral trade ties of the European Union with Japan. Figure 1 illustrates the phenomenon of a relatively constant value of the EU's exports to Japan.

In 2002 and 2003 there was a noticeable drop in the EU's export to Japan, but from 2004 the situation again returned to the beginning, which can be explained by the Eastern enlargement of the European Union. Opposite tendencies which characterized global trade and this between the EU and Japan made Japan less and less important trade partner for the EU. In 2000 Japan was her third trade partner (with the share of 4.7%), but in 2008 Japan was placed as the seventh one (with the share of 3.2%).

¹ WTO Statistics Database, <http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E> (accessed 20. 04.2010).

² *International Trade Statistics 2009*, WTO, Geneva 2009, p. 173.

³ WTO Statistics Database, *op. cit.*



Note: in the years 2000-2003 EU-15, in the years 2004-2006 EU-25, in the years 2007-2009 EU-27.

Figure 1. Exports Development of EU into Japan in the years 2000-2009, in million EUR

Source: own calculations based on: *External and Intra-European Union Trade – Statistical Yearbook. Data 1958-2008*, Publications Office of the European Union, Luxembourg 2009, pp. 114-327; *External and Intra-European Union Trade. Monthly Statistics 2009*, No. 12, pp. 142-441.

Stability, which was noticeable in the field of exports value, was also a feature of geographical breakdown of the EU's export to Japan. The most important European exporter was Germany with a share from 29.2 to 30.5% of the total EU's exports to Japan.⁴ Other important exporters were: France (12-13%), the United Kingdom (10-13%), Italy (9-10%), Belgium (4-6%) and Denmark (3-5%). Other member states had little or even marginal significance as import supply markets for Japan. At the same time we should stress that except for Denmark, all most important EU member states had trade deficits with Japan, which means that a general deficit of the EU in trade with Japan was a permanent feature of their trade relations.⁵

If one takes into account EU's exports by product, it can be noticed that trade is concentrated on manufactured goods. Table 1 shows the EU's exports into Japan as a breakdown by product in 2000 and 2008/2009 in accordance with SITC classification.⁶

⁴ Own calculations based on *External and Intra-European Union Trade – Statistical Yearbook. Data 1958-2008*, Publications Office of the European Union, Luxembourg 2009, pp. 114-327; *External and Intra-European Union Trade. Monthly Statistics 2009*, No. 12, pp. 142-441.

⁵ Japan has had a trade surplus with the European Community since the late 60s of the 20th century till nowadays, cf. P. Pasierbiak, *Miejsce Unii Europejskiej w zagranicznej ekspansji Japonii*, Wydawnictwo UMCS, Lublin 2008, p. 164.

⁶ SITC – *Standard International Trade Classification*.

Table 1. EU's exports into Japan by product the period of 2000-2009 (in %)

SITC	2000	2008	I-VII 2009
0+1 – Food, drinks and tobacco	8.7	9.2	10.2
2+4 – Raw materials	3.2	3.2	3.0
3 – Energy products	0.1	1.2	0.8
5 – Chemicals	18.1	20.7	24.4
7 – Machinery and transport equipment	39.0	34.7	29.4
6+8 – Other manufactured goods	27.2	26.3	26.3
9 – Products not classified elsewhere	3.7	4.6	5.9

Note: in 2000 UE-15, in other years UE-27.

Source: *External and Intra-European Union Trade – Statistical Yearbook...*, p. 48; *External and Intra-European Union Trade. Monthly Statistics*, pp. 60, 61.

The biggest share (about $\frac{1}{3}$) in exports belonged to machinery and transport equipment (SITC 7), while its share was shrinking. Then the exports were based on other manufactured goods (SITC 6+8) but in this case a percentage share was stable. A bit less important but with a positive tendency toward share's increase were chemicals (SITC 5). Their share increased from 18.1% (2000) to 24.4% (I-VII 2009). Such a significant share of the above-mentioned groups of goods made all other group less important. Except for a group of food, drinks and tobacco, others have a low share in the EU's exports into Japan.

3. Barriers to EU's export to Japan

3.1. Structural barriers

Japan is traditionally considered as a country which creates many problems for foreign export enterprises which try to enter the Japanese market.⁷ As a proof of objective difficulties in entering and functioning on the Japanese market one can take import penetration index.⁸ It is said that among all OECD countries, Japan has the lowest level of import in relation to its domestic demand. According to some

⁷ Nowadays such an opinion is also formulated. Recently, the British Business Secretary Peter Mandelson has stated that one of the factors which deteriorate relations between Japan and the UK/the EU is invisible barriers of entry to the Japanese market. J. McCurry, *Mandelson Calls on Japan to Lift 'Invisible' Barriers to Free Trade*, <http://www.guardian.co.uk/business/2009/oct/06/mandelson-japan-free-trade-carmaking>, (accessed 8.04.2010).

⁸ Import penetration index is defined as a share of imports of goods in the domestic demand.

estimates, the index is at the level of 6%, while for example in Canada and South Korea at 18%, and in the EU at 17%.⁹

An import penetration index can also be utilized as a measure of degree of Japan's openness toward the EU's exports. Estimates made by experts from Copenhagen Economics indicate that Japan has the lowest index among the most important export markets of the European Union.¹⁰ If the index reaches the average level for all trade partners of the EU, it could increase the exports from the EU into Japan by 44% (27 billion USD).¹¹

For many years enterprises from the United States and Europe have claimed that despite numerous attempts they are not able to efficiently enter and compete at the Japanese domestic market. As a main cause they cite barriers which their export offer is faced with on the Japanese market. The impediments they face are of a structural character but on the other hand there are also impediments of a strictly trade character, which are a consequence of tariff and non-tariff barriers.

For many years structural barriers have been a basic field of discussion between trade partners of Japan and Japanese authorities. Since 1991 the European Union has had multidimensional dialogue with Japan where economic matters were the most important.¹² In the economic co-operation part of the dialogue it was the equitable access aspect of the Declaration which was emphasized. It should lead towards attempts at elimination of structural trade barriers. These impediments were:¹³

- 1) the *keiretsu* business groups whose interlocking corporate relationships reduce the scope for foreign competition;
- 2) an ineffective competition policy that overlooks the potential and actual welfare reducing outcomes from the above;
- 3) the lack of independent dealership networks and underdeveloped retail sector;
- 4) a particularly idiosyncratic trade financing system and business associations that enjoy government support and occasional protection;
- 5) a convoluted system of multiple layers of wholesalers that has advantaged domestic producers at the expense of foreign rivals;
- 6) Japan's predilection for savings-led growth as opposed to consumption-led growth which leads to low import demand.

⁹ *Assessment of Barriers to Trade and Investment between the EU and Japan. Final Report*, Copenhagen Economics, November 2009, p. 21.

¹⁰ In this case the index is calculated as a value of the EU's exports to GDP value on the same market.

¹¹ Goods and services together. *Assessment of Barriers...*, p. 20.

¹² *Joint Declaration on Relations between the European Community and Its Member States and Japan* was signed on 18 July 1991.

¹³ C.M. Dent, *The European Union and East Asia. An Economic Relationship*, Routledge, London 1999, p. 97.

In relation to structural barriers mentioned above it can be stated that some of them are nowadays of lesser importance. The first two of the barriers listed above can be numbered in this set. Long-lasting period of economic slowdown in Japan, which started in the beginning of the 1990s, has caused changes within *keiretsu* groups. Its main feature was loosening of intra-corporate ties, which can be illustrated by decrease in an index of cross-shareholding.¹⁴ A share of cross-shareholding in the volume of all shares has dropped from the level of 17-18% at the beginning of the 1990s to 7.4% in 2002.¹⁵ As a consequence, conditions for competition were ameliorated, which can also be characterized by growing flows of foreign direct investments into Japan. The other structural barriers still more or less form impediments for external exporters interested in entering the Japanese market. A specificity of structural barriers is that their elimination is a long-term process, not always dependent on current activities undertaken by the authorities. In the long run, reduction of structural barriers will be conditioned by changes in the Japanese mentality and by devotion of the authorities to the process of structural reform.

3.2. Tariff and non-tariff barriers

Traditional barriers of trade development between countries relied on utilization of tariffs. Nevertheless tendencies toward liberalization in the world economy have changed the situation – the current level of tariffs is low, and increasingly more important role in imports regulations is being played by barriers other than tariffs. Similar tendencies can be noticed in the EU's exports to Japan. According to WTO data, a simple average MFN tariffs rate of Japan towards the EU was 3.8%.¹⁶ If we take into account a tariffs rate weighted by trade, it appears that the level of the rate drops to 1.7%.¹⁷ This is a consequence of a situation in which more than 70% of the EU's export value is duty-free.¹⁸ An additional factor is the structure of tariffs in Japan, which applies high tariffs to goods which are not exported by European enterprises in large quantities.¹⁹ On the other hand, where import from the EU is bigger in value, the level of tariffs is relatively low.²⁰ Having said this, one can conclude that

¹⁴ This practice relies on keeping shares by interrelated firms (producers, banks, insurers, etc.) within the framework of *keiretsu*. The main aim is not earnings on shares but mutual aid in establishing encouraging climate to run a business, R.C. Hsu, *The MIT Encyclopedia of the Japanese Economy*, MIT Press, Cambridge 1999, p. 107.

¹⁵ *The Relationship of Companies and Banks as Cross-shareholdings Unwind – Fiscal 2002 Cross-shareholding Survey*, NLI Research Institute, <http://www.nli-research.co.jp/english/economics/2003/eeco031118.html>, p. 6 (accessed 25. 04.2010).

¹⁶ See: *World Tariffs Profiles 2008*, WTO, Geneva 2008, p. 78.

¹⁷ *Ibidem*.

¹⁸ *Ibidem*.

¹⁹ For example against dairy products an average MFN rate was at the level of 169.3%, *ibidem*, p. 78. Cf. *World Tariffs Profiles 2009*, WTO, Geneva 2009, p. 98.

²⁰ Low tariffs are imposed on chemicals (2.2%) and in transport equipment there is a “zero” rate applied.

nowadays tariff barriers are not the most important factor of low import penetration of the EU in Japan. Besides, a decrease in tariffs burden will be a consequence of finalizing the negotiation round within the World Trade Organization (Doha Round). Because of this one can claim that it is Japanese non-tariff barriers which constitute the main source of problems for European exporters.²¹

Experts from Copenhagen Economic have identified and quantified non-tariff measures used by Japan against imports from the European Union.²² Results of this research have been presented in a report which indicates that indeed in some sectors there exist non-tariff barriers, and their elimination would cause a strong growth in the EU's exports into Japan. These sectors are, among others: pharmaceuticals, medical devices, processed food, motor vehicles, transport equipment and to a lesser degree chemicals, metal products and wood products. Non-tariff barriers in selected sectors will be described in more detail.

EU pharmaceutical exports to Japan are impeded by a complex and costly regulatory environment. The most important impediments are the following.

1) Non-recognition of foreign clinical data adds to the cost of serving the Japanese market.

2) The approval process for marketing new medicines in Japan is slow and overly burdensome. Introduction of new medicines is delayed for two to three years. This allows Japanese firms to develop competing products and narrow down the innovative advantage of EU producers.

3) The reimbursement rules in Japan provide inadequate incentives for the introduction of new and innovative medicines.

The EU's export of medical devices is being restrained by the costly and cumbersome process of launching new products on the Japanese market:

1) Development costs for EU medical device producers are increased by requests for additional clinical trials from the Japanese authorities.

2) Excessive Japanese standards and regulatory requirements result in a significant device lag, and a large number of medical devices are not even being submitted for approval in Japan.

3) The pricing and reimbursement system creates disincentives for introducing new and innovative products on the Japanese market.

Barriers for the EU's exports of processed food are a consequence of costs increase because of differences between the EU and Japanese standards and technical requirements as well as cumbersome border procedures. As these costs are independent of the export volume, the result is important entry barriers to the Japanese market. Examples of such differences are as follows:

²¹ It should be emphasized that despite a low level of tariffs burden which is faced by the EU's exports into Japan, elimination of tariffs would lead to a welfare effect (exports growth) of 14 billion EUR. See: *Assessment of Barriers...*, p. 9.

²² This part of the article is based on Copenhagen Economics research report: *Assessment of Barriers...*

1) The limited number of permitted food additives in Japan and unaligned standards between the EU and Japan increases costs and prevent EU exporters from utilizing scale effects.

2) High conformity costs are incurred because Japanese authorities do not accept evaluations made by the EU or international bodies.

The barriers encountered by EU motor vehicle producers in Japan are mainly of technical nature and are related to emissions, safety and noise standards. These barriers cause additional development and production costs for EU exporters.

1) The Japanese TRIAS regulation requires special testing on emissions and durability of exhaust systems. This causes delays in approvals which are particularly serious for innovative products.

2) The Japanese regulations regarding steady running noise and proximity stationary noise levels are not harmonized with UNECE standards.²³

3) Japan is introducing new safety standards that are not present in the UNECE.

All these barriers create concrete costs for European producers and exporters, trying to enter Japanese markets with their offer. A compilation of estimated costs of utilization of non-tariff barriers by Japan in order to regulate imports from the UE is presented in Table 2. The same table also shows estimated benefits of barriers reduction.

Table 2. Influence of reduction of non-tariff barriers on costs and value of EU's export into Japan in selected sectors

Sector	Additional export costs caused by non-tariff measures (%)	Lowest possible level of additional export costs (%)	Export growth of the EU into Japan as a consequence of export costs reduction	
			%	billion EUR
Pharmaceuticals	22	2	60-100	up to 3.4
Medical devices	30	18	51	1.1
Processed food	25	16	7-24	up to 1.1
Motor vehicles	10	3	84	4.7

Source: own preparation based on *Assessment of Barriers...*, pp. 8-12.

The data show that maximally possible lowering of non-tariffs measures could significantly increase the EU member states' exports into Japan. Depending on a sector, an additional growth amounts to from 1.1-4.7 billion EUR per year. The entire value of additional EU's exports to Japan, as a consequence of maximum reduction of non-tariff barriers is estimated at 29 billion EUR. If we relate this value

²³ UNECE – United Nations Economic Commission for Europe. This is one of five regional commissions of the United Nations. Among other things, the UNECE also sets out norms, standards and conventions to facilitate international cooperation within and outside the region.

to the current value of exports in goods (Figure 1), the ratio is more than 50%. Such relatively significant benefits should be treated as a framework for activities undertaken by authorities.²⁴ All the more, a regulatory dialogue, which is already running, and other initiatives aimed at lowering bilateral trade barriers should be supported.

4. Conclusions

The analysis of barriers to the EU's export into Japan between 2000 and 2009 may allow us to point at a few characteristic phenomena and processes.

1) The dynamics of the EU's exports into Japan was relatively low in the period under scrutiny. Simultaneously, a higher average rate of the total EU's exports over an average rate of its exports into Japan has caused a drop in a ranking of the EU's main exports markets.

2) There are still structural barriers which traditionally limit entering and functioning of foreign enterprises on the Japanese market. But there are also signs of change. Reduction in intra-corporate ties and long-lasting economic slowdown make it easier to create regulations which encourage international competition at the internal Japanese market.

3) Tariffs are not basic instrument of market protection of Japan against imports from the EU. But still, their utilization in so called "sensitive areas" (e.g. food products) causes that effective exports of the EU is much lower than potential exports. A total elimination of tariffs could create a wealth effect of 14 billion EUR.

4) Main obstacles to the EU's exports into Japan constitute non-tariff barriers. Specific norms, standards, certification procedures and different quality confirmation regulations elevate real costs of exports into Japan. A reduction of such obstacles could increase exports (wealth effect) of the EU into Japan by 29 billion EUR.

References

- Assessment of Barriers to Trade and Investment between the EU and Japan. Final Report*, Copenhagen Economics, November 2009.
- Dent C.M., *The European Union and East Asia. An Economic Relationship*, Routledge, London 1999.
- External and Intra-European Union Trade – Statistical Yearbook. Data 1958-2008*, Publications Office of the European Union, Luxembourg 2009.
- External and Intra-European Union Trade. Monthly Statistics* 2009, No. 12.
- Hsu R.C., *The MIT Encyclopedia of the Japanese Economy*, MIT Press, Cambridge 1999.
- International Trade Statistics 2009*, WTO, Geneva 2009.
- McCurry J., *Mandelson Calls on Japan to Lift 'Invisible' Barriers to Free Trade*, <http://www.guardian.co.uk/business/2009/oct/06/mandelson-japan-free-trade-carmaking>.

²⁴ Similar benefits could be achieved by Japan if the EU abolishes non-tariff barriers against Japanese exports.

Pasierbiak P., *Miejsce Unii Europejskiej w zagranicznej ekspansji Japonii*, Wydawnictwo UMCS, Lublin 2008.

The Relationship of Companies and Banks as Cross-shareholdings Unwind – Fiscal 2002 Cross-shareholding Survey, NLI Research Institute, <http://www.nli-research.co.jp/english/economics/2003/eco031118.html>.

World Tariffs Profiles 2008, WTO, Geneva 2008.

World Tariffs Profiles 2009, WTO, Geneva 2009.

WTO Statistics Database, <http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E>.

BARIERY ROZWOJU EKSPORTU UNII EUROPEJSKIEJ DO JAPONII

Streszczenie: Autor artykułu koncentruje się na wskazaniu barier w rozwoju eksportu Unii Europejskiej do Japonii występujących w latach 2000-2009. Tradycyjnie istniejące bariery strukturalne straciły na znaczeniu, a bariery celne również nie stanowią najważniejszej przeszkody. Główne bariery wynikają z zastosowania instrumentów nietaryfowych. Japońskie normy, standardy, procedury certyfikowania, brak uznania dla procedur oceny zgodności dokonywanych przez kraje eksportujące oraz stosowne organy międzynarodowe stanowią skuteczne ograniczenia w rozwoju eksportu UE do Japonii. Ich redukcja skutkowałaby pojawieniem się silnego efektu bogactwa wynikającego ze wzrostu wartości eksportu.