Economic Cooperation Between The European Union And Japan

Abstract

The aim of the paper is to show the history of economic relations between the European Union and Japan. This economy is very important to the EU and the countries of the EU are interested in further deepening areas of cooperation. Therefore it seems important to indicate the political will to continue mutual economic relations through the signing of contracts and bilateral agreements, as well as meetings at various levels, including SPA and EPA negotiations and summits. The course of the current economic cooperation will be shown through trade volume and foreign direct investment outflows from the European Union to Japan.

Keywords: economic cooperation, trade, FDI, Japan, EU

JEL: F14, F21, F40, F53

1. Introduction

Although Japan is a developed country, like the EU countries there are perceptible differences arising even from culture or mentality, which affect the conduct of economic activity in Japan. Geographically distant, Japan is a challenge for the EU. The EU countries would like to maintain and deepen the cooperation, but it is not easy. In addition, each economic crisis affects their mutual cooperation, resulting in reduction of the volume of trade and investment.
The aim of this paper is to present and analyze European Union trade and foreign direct investment outflows to Japan. Thus, three important questions arise: firstly – what are the economic determinants linking the European Union and Japan? Secondly – how big are the trade flows between the EU and Japan? – And lastly – what are the FDI flows from EU countries to Japan?

2. Cooperation between the European Union and Japan

The relations between the European Economic Community and Japan in the 1960s and 1970s were based mainly on economic cooperation, especially in the area of trade. Japan’s membership in GATT\(^1\) was of great importance for mutual relations. Japan had achieved economic success already a decade after World War II.\(^2\) The 1960s marked the period of Japan’s “economic miracle”, resulting from the production and export of goods. Japan closely observed the development of the Western European countries. A very important stage was the creation of the Single European Market, which allowed the barriers to trade between Member States of the EEC to be removed and allowed for planning the strengthening of a common commercial policy towards third countries. The experience of Western European countries in the development of the internal market inspired both parties to develop sustained cooperation. Japan saw real benefits for both their consumers and entrepreneurs and foresaw a GDP growth, as liberalization of trade between the EEC and Japan could lead to increased trade volume and Japan’s more dynamic economic development. However, the expected results of this cooperation did not appear immediately. In the 1960s Japanese goods were qualitatively not competitive and Japan’s imports from the EEC exceeded its exports. Additionally, in the early 1970s Japan suffered from the crisis in the Middle East.\(^3\)

Since the early 1990s however, Japan gradually began to open its economy to international competition and to implement appropriate structural reforms. It started a formal liberalization. This resulted in an increase in economic cooperation

\(^{1}\) Japan has been the member of GATT since 10 September 1955 and of the WTO since 1 January 1995.


\(^{3}\) Japan faced the threat of withholding of oil supplies, and the subsequent increase in prices translated into an internal growth of commodity prices, which resulted in inflation growth reaching 20% in Japan in 1974; (W. Góralski, Założenia i kierunki polityki zagranicznej Japonii, Azja-Pacyfik, 1998, No. 1/98, p. 102).
between the EU and Japan, although the relations between them did not have many chances for improvement in the area of the policy without a prior agreement on trade. The Japanese side was asked to settle contentious issues. These included, inter alia, non-tariff barriers. Japan applied many standards that differed from internationally recognized ones, especially regarding pharmaceuticals, medical devices, telecommunications equipment, electrical appliances, automobiles, chemicals, food and wood products. The European Union worried that new EU products (also other substances, including food products) would be subjected to a long-term adjustment procedure prior to their introduction into the Japanese market. Another subject of contention was the maintenance of a ban on beef imports from the EU, and yet another controversial issue was whether to grant companies from the EU access the Japanese public procurement market.4

A new stage in building relations aimed at the establishment of stable economic relationships was the signing of Joint Declaration on relations between the European Community and Japan on 18 July 1991 in Hague. The declaration included a common position on issues of a political, humanitarian and economic nature, including support for the development of free trade. In order to discuss the disputed issues the parties planned meetings in many areas – the so-called ‘informal dialogues’. Another forum for discussion were ministerial and government meetings held at annual summits. Twice a year, the meetings of foreign minister of Japan with the Foreign Affairs Committee of the EEC were to be convened. In practice however, these declarations did not lead to intensification of trade and investment cooperation (Góralski 1998, p. 120–121). An important reason was the economic situation in the last decade of the twentieth century, when Japan was struggling with two major crises: its economic crisis in the years 1992–1993, and the Asian financial crisis in the years 1997–1998.

On 13 July 1994 the Commission Communication “Towards a new Asia strategy” defined for the first time the general direction in the conduct of the European Union's relations with Asian countries. The EU wanted to create a framework for future cooperation with the countries of the region. After analyzing major economic, political and social changes in Asia, Europe and the world, a deepening of relationships was declared. Economic cooperation was essential for the EU and the strategic framework of cooperation included the following issues:5

- peace and security in the region and in the world;
- increase in mutual trade and investment flows;

• supporting the development of the poorer countries in the region and eradication of poverty;
• contributing to the protection of human rights and promotion of democracy;
• developing global partnerships and alliances with Asian countries in order to face the challenges of the globalization process,
• disseminating knowledge about Europe in Asia and about Asia in Europe.

A review of the progress of cooperation was also provided in order to allow for adjustments in the operation and management of resources during the implementation of the strategy. The strategy itself showed that the Asian region was important for the EU. However, the global challenges remained in place. The EU policy regarding foreign affairs and the Asian region would determine the next steps in implementing the strategy.

During the 10th EU-Japan Summit, held on 8 December 2001 in Brussels, a ten-year Action Plan was signed. The aim of the plan was to strengthen the EU-Japan partnership and the transition from consultation to joint action. One of the four objectives of the plan was to strengthen economic and trade cooperation in bilateral relations and in the international arena, including within the WTO.6

Japan, as a highly developed economy, a major investor and an active participant in trade, was seen as an important partner for the EU and the second most important among the countries of East Asia, after China. From the standpoint of Japan trade with the EU was beneficial as well. Japan reported a positive trade balance. It extensively exported to the EU countries, mainly cars and electronic equipment. At the same time the conduct of business or investment activities by EU companies in Japan was relatively difficult. In the case of foreign direct investment (FDI), European companies still faced both formal barriers (regulations hindering investments of foreign companies in Japan) and informal barriers (e.g. concerning the relations between the government and the private sector, and legal and administrative procedures). As a result, the restrictions on access to the Japanese market were the subject of numerous disputes between Japan and the EU in the WTO forum (Gradziuk 2002). On the other hand, a high number of Japanese investments in the European Union were noted.

In 2003 Japan became a strategic partner for the European Union.7 Several important agreements had already been or were to be signed:8

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6 Ibidem.
1. **The EU-Japan Mutual Recognition Agreement**, which entered into force on 1 January 2002; its aim was to facilitate trade in industrial products. The agreement allowed for assessment of the conformity of products in four areas: pharmaceuticals, chemicals, telecommunications equipment, and radio and electrical equipment.\(^9\) It was expected that by testing, inspection and/or certification of products made in the exporting country, and not in the place of destination, a significant improvement in their access to the market could be achieved.

2. **The Agreement on Co-operation on Anti-competitive Activities**, dated 16 June 2003; its aim was to create a basis for cooperation, coordination and the effective enforcement of competition law.


4. **The Agreement on Co-operation and Mutual Administrative Assistance (CCMA)**, which entered into force on 1 February 2008. It provided a legal framework for facilitating and promoting trade, increased the efficiency of the fight against fraud and furthered cooperation on the protection of intellectual property rights.

Other agreements between the parties should also be mentioned:\(^{10}\)

1. **Exchange of Letters Between the European Community and Japan Pursuant to Article XXIV: 6 and Article XXVIII of the General Agreement on Tariffs and Trade (GATT) 1994**, which was signed and entered into force on 21 December 2005.

2. **Agreement on Duty-Free Treatment of Multi-Chip Integrated Circuits (MCPs)**, which was signed on 12 December 2005 and entered into force on 1 April 2006.

3. **The 2006 International Tropical Timber Agreement**, which was signed on 27 January 2006 and entered into force on 7 December 2011.


6. **The Agreement in the Form of an Exchange of Letters Recording the Common Understanding and Modifying and Renewing the Agreement on International Cooperation on Research and Development Activities in the Domain of Intelligent Manufacturing Systems (IMS) Between the European

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Community and Australia, Canada, the EFTA countries of Norway and Switzerland, Korea, Japan and the United States of America, which was signed on 22 March 2007 and entered into force on 4 January 2008.

7. The Agreement Between the Government of Japan and the European Atomic Energy Community for Cooperation in the Peaceful Uses of Nuclear Energy, which was signed on 24 August 2006 and entered into force on 20 December 2006.

8. The Agreement Between the European Atomic Energy Community and the Government of Japan for the Joint Implementation of the Border approach Activities in the Field of Fusion Energy Research, which was signed on 5 February 2007 and entered into force on 1 June 2007.

9. The Agreement Between the European Community and the Government of Japan on Cooperation and Mutual Administrative Assistance in Customs Matters, which was signed on 30 January 2008 and entered into force on 1 February 2008.

10. Agreement Between the European Union and Japan on Mutual Legal Assistance in Criminal Matters, which was signed on 30 November 2009 and entered into force on 2 January 2011.

The 19th EU-Japan Summit was held in Tokyo on 28 April 2010. A Joint High Level Group was established, the task of which was to make a comprehensive analysis of the possibility to increase cooperation between the EU and Japan and to define the framework of its implementation, making use of the experiences gained from the Joint Declaration of 1991 and the Action Plan of 2001. Of particular importance were the issues of elimination of tariffs and non-tariff barriers, cooperation in the services sector, and investment in non-services sectors as well as intellectual property rights and public procurement.

The following 20th EU-Japan summit was held on 28 May 2011 in Brussels, and talks on the following issues were started:

- A deep and comprehensive free trade agreement (FTA)/Economic Partnership Agreement – EPA covering all issues of importance to both sides, including tariffs, non-tariff measures, services, investment, intellectual property rights, competition and public procurement;
- A binding, comprehensive agreement (framework agreement) regarding political, global and sector cooperation.

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On 25 March 2013 negotiations of the “Japan-EU Strategic Partnership Agreement (SPA)” and of the establishment of the ‘Free Trade Area (FTA) European Union – Japan’ were begun. The main objectives were the elimination of non-tariff barriers existing in Japan, the reduction of tariffs in EU-Japan trade, and increasing the level of opening of the Japanese public procurement market. The first round of negotiations was held in Tokyo between 19 and 22 April, the second round in July, and the third round in October 2013. This process went quickly, thanks to the serious commitment of both sides. Negotiations on SPA/FTA represent a turning point in relations between the EU and Japan, as they confirm their entry into a higher phase of development and open new prospects for deeper cooperation. However, it should be added that the European Parliament, in order to maintain good relations with Japan, supported the launch of negotiations on the free trade agreement. It stressed, however, that it has to provide the same benefits for both parties, and that negotiations could be suspended if Japan failed to fulfill their obligations in terms of reducing technical barriers to trade. The last rounds of negotiations took place between 14 and 15 October 2015 in Tokyo and on 17 March 2016 in Brussels. The subsequent rounds of negotiations SPA are presented in Table 3.

During the twenty-third EU-Japan Summit, held on 29 February 2015, the parties approved the acceleration of negotiations on a free trade agreement, so that it could be concluded by the end of 2015 or in the first months of 2016. Japan's Prime Minister Shinzo Abe agreed to accelerate the negotiations on the partnership between the EU and Japan. A Japanese press agency, Kyodo, announced that for the first time a specific deadline for the conclusion of the agreement was set despite the still-existing serious differences between the parties. The following unresolved issues were mentioned:

- abolition of EU tariffs on Japanese cars – the Japanese side believed that then they would be more competitive in the EU (but there is a conflict of interests due to the functioning of the booming German automotive sector). Negotiators raised the issue of the production of parts for Japanese cars and considered that these cars, for which more than half of the parts are manufactured outside of Japan, would not be covered by the abolition of tariffs (as the Japanese manufacturers have many suppliers in China and Taiwan);

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13 Ibidem.
14 J. Bossak, P. Gołębiowski, A. Tarnowski, op. cit.
removal of Japan's non-tariff barriers to trade, including legislation concerning the safety standards of vehicles;

- opening of the Japanese public procurement sector for European entrepreneurs and lifting the many barriers that prevent the entry of the EU companies to the market, especially to the food market.

Until now, there have been sixteen rounds of negotiations on a free trade area between the European Union and Japan, and the sixteenth round of negotiations included an Economic Partnership Agreement EU-Japan (EPA). Recent negotiation meetings between the parties were organized on 30 November 2015 in Tokyo\(^\text{17}\), 29 February to 4 March 2016 in Brussels\(^\text{18}\) and between 11 and 15 April 2016 in Tokyo.\(^\text{19}\) Unfortunately they did not end with an agreement. A summary of the negotiation rounds is shown in Table 2.

The fifteen round of negotiations was attended by: on the Japanese side – representatives of relevant ministries led by Koji Haneda, Ambassador for International Economic Affairs, while on the EU side – representatives led by Mauro Petriccione, Deputy Director General of the Directorate of Trade of the European Commission.\(^\text{20}\) The sixteenth round was also attended by Ambassador Koji Haneda, as representative of the Government of Japan for Free Trade and Economic Partnership Agreements Negotiations (as the Chief Negotiator) and other relevant representatives of ministries, and on the EU side by Mr. Mauro Petriccione, Deputy Director-General representing Directorate-General for Trade, European Commission (as the Chief Negotiator) and other representatives. The talks were focused mainly on trade in goods, trade in services, intellectual property rights, non-tariff measures, public procurement and investment.

Japan's interests include:

- elimination of EU tariffs on industrial goods (i.e.: autos 10%, electronic devices 14%),
- movement of persons and other barriers,
- transparency and improvement of the operation of regulations.

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The EU’s interests include:

- Japan's NTM/NTBs on autos, drugs, medical devices and food additives etc.;
- public procurement (especially market access to railways, electricity and gas in Japan);
- Geographical Indication (GI).  

Table 1. Negotiation rounds: Japan-EU Summit Meetings

<table>
<thead>
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<th>Summit Meetings</th>
<th>Location</th>
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<tbody>
<tr>
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<td>Paris</td>
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<td>5</td>
<td>Tokyo</td>
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<td>6</td>
<td>Hague</td>
<td>25.06.1997</td>
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<td>7</td>
<td>Tokyo</td>
<td>12.10.1998</td>
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<td>8</td>
<td>Bonn</td>
<td>20.06.1999</td>
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<td>9</td>
<td>Tokyo</td>
<td>19.07.2000</td>
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<td>10</td>
<td>Brussels</td>
<td>08.12.2001</td>
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<td>11</td>
<td>Tokyo</td>
<td>08.07.2002</td>
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<td>12</td>
<td>Athens</td>
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<td>13</td>
<td>Tokyo</td>
<td>22.06.2004</td>
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<td>14</td>
<td>Luxembourg</td>
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<td>15</td>
<td>Tokyo</td>
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<td>16</td>
<td>Berlin</td>
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<td>23</td>
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<td>29.05.2015</td>
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Table 2. Negotiation rounds: Japan-EU Economic Partnership Agreement (EPA)

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<td>1</td>
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<td>2</td>
<td>Tokyo, Japan</td>
<td>24.06 – 03.07.2013</td>
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<td>29.02 – 04.03. 2016</td>
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<td>16</td>
<td>Tokyo, Japan</td>
<td>11 – 15.04.2016</td>
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Table 3. Negotiation rounds: Japan-EU Strategic Partnership Agreement (SPA)

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<td>2</td>
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<td>03 – 05.07.2013</td>
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<td>3</td>
<td>Tokyo, Japan</td>
<td>09 – 11.10.2013</td>
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<td>Brussels, Belgium</td>
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<td>5</td>
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<td>11</td>
<td>Brussels, Belgium</td>
<td>17.03.2016</td>
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Despite the commitment to the development of mutual cooperation, the EU market (including the key partners: Germany, Great Britain and France) is becoming less and less attractive for Japan. Although the European Union is indeed one of its leading trade partners, the share of Japan’s trade with the EU is decreasing. The decisive factor here is the decrease in demand for Japanese products (especially medium- and high-technology products) in the markets of the developed European countries. In addition, the trade balance for Japan is getting worse (in 2007 it amounted to 40.3 billion USD, and in 2013 – only 6.8 billion USD). Thus, there are substantial differences in the motives and methods of directing economic policy by both parties. The European market was always important for Japan, and for the EU Japan still remains a challenge. It seems that the removal of barriers, differences and controversial issues will give a basis for the realization of plans and will bring fruitful cooperation results.

3. Trade flows between the European Union and Japan

Japan is one of the biggest trade partners of the EU in Asia, but its role is slightly decreasing. In 2014, the European Union improved its balance of trade with Japan, reducing the deficit to 1.9 billion EUR, while exports and imports of the EU amounted to 53.3 billion EUR and 55.2 billion EUR respectively. In 2015, the European Union recorded a deficit in trade with Japan in the amount of 3.2 billion EUR, while ten years earlier, in 2005 the deficit amounted to 30.6 billion EUR. Between 2005 and 2015, the share of Japan in EU’s total trade with ASEM partners (exports and imports) fell significantly, from 15.2% in 2005 to 8.8% in 2015.

The European Union reported the greatest value of imports of goods from Japan in 2007 (amounting to 79.3 billion EUR), and the lowest in 2014 (55.2 billion EUR). On the other hand, the largest value of exports of goods from the EU to Japan was recorded in 2015 (56.6 billion EUR), and the lowest in 2009 (36 billion EUR). The data are presented in Figures 1 and 2 below.

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22 Japan's trade with Asian countries is strengthening.
24 ASEM partners accounted for more than a third of EU trade in goods in 2015 www.ec.europa.eu/eurostat
In seeking an answer to the question of the causes for the decline in importance of Japan in the European Union's trade, it is essential to pay attention to the effects of the 2008–2009 crisis and the global collapse of demand, affecting both the EU and Japan. The crisis also caused a change in the structure of trade – the share of high and mid-high technology products in the total trade volume fell, and the share of basic and less processed goods remained unchanged. The most important part of the EU-Japan exchange were technologically advanced industrial products.25 The third factor causing a decrease in mutual trade relations was the growing involvement of Japan in intra-regional trade, especially with China, South Korea and India.

4. European, British, French and German FDI flows to Japan

The last part of the paper contains an analysis of European FDI in Japan. Figures 3-6 show FDI flows to Japan (based on Balance of Payments, net). Figure 3 shows the flows of European and EU FDI in the period 2000–2015. It is visible that there was a lot of interest in this market among European investors in the years 2002–2009. The level of the EU investment was the highest in 2009 and amounted to 8.2 billion USD. In 2010 there was a sudden drop in the level of investment to 0.2 billion USD and in 2014 it grew again to 3.2 billion USD. The data indicate the capital outflow in 2015 equaled –8.5 billion USD. As for the flow of FDI to Japan from the EU in the initial period – that is from 2000 to 2005 – the line almost coincides with the line of FDI for Europe. In 2006 FDI outflow was recorded with a value of -4.3 billion USD. The highest value of the EU FDI flow, equaling 9.2 billion USD, was observed in 2009. In the last analyzed year 2015 there was an outflow of FDI worth -8.2 billion USD.

Figure 4 shows British, French and German FDI flows in the period 2000–2015. The largest British FDI flow, amounting to 5.6 billion USD, was recorded in 2009. In the following years there was a drop of this type of investment and in 2015 it reached the level of –1.4 billion USD. The largest flow of FDI from France was reported in 2011 and amounted to 3.4 billion USD. In 2000 it was 2.3 billion USD, 2.2 billion USD in 2002, and 1.2 billion USD in 2015.

Figure 3. Japan's FDI inflows from Europe and the European Union 2000-2015 (mln USD)

2015. The highest level of FDI flows from Germany, equaling 2.2 billion USD, was recorded in 2010, in 2003 it was 1.8 billion USD and in 2014 1.2 billion USD. By contrast, in 2015 it was -3.2 billion USD.

Figure 4. Japan's FDI inflows from Germany, United Kingdom and France, 2000–2015 (million USD)

JETRO records FDI exceeding 1 million USD. Negative values indicate net outflows of FDI.


Figure 5 shows FDI flows from Netherlands, Italy and Belgium in the years 2000–2015. The largest FDI flow from Netherlands, in the amount of 3.6 billion USD, was recorded in 2009. The largest outflow of investment was recorded in 2006 (–7.6 billion USD) and in 2010 (–7.7 billion USD). The largest FDI flow from Italy was recorded in 2001 and amounted to 0.4 billion USD. In 2014 there was an outflow of FDI worth –0.09 billion USD. In 2015 there was an increase in investment to 0.3 billion USD. The highest level of FDI from Belgium was recorded in 2006 (20.9 billion USD), and in 2008 there was the highest outflow of FDI (–2 billion USD).

Figure 6 shows FDI flows from Luxembourg, Switzerland, Sweden and Spain in the years 2000–2015. The largest FDI flow from Luxembourg, in the amount of 1.3 billion USD, was reported in 2013. The largest outflow of investment, equaling –4.4 billion USD, was recorded in 2012. The largest flow of FDI from Switzerland was recorded in 2008 (1.9 billion USD) and in 2012 (5 billion USD). The highest level of FDI from Sweden was reported in 2006 (0.7 billion USD) and the highest outflow of FDI (–0.6 billion USD) was recorded in 2015. The largest FDI flow from Spain was reported in 2004 (0.1 billion USD). The largest outflow of investment was reported in 2007 and equaled –0.04 billion USD.
Figure 5. Japan’s FDI inflows from Netherlands, Italy and Belgium, 2000–2015 (million USD)

JETRO records FDI exceeding 1 million USD. Negative values indicate net outflows of FDI.


Figure 6. Japan's FDI inflows from Luxembourg, Switzerland, Sweden and Spain, 2000–2015 (million USD)

JETRO records FDI exceeding $ 1 million. Negative values indicate net outflows of FDI.

5. Conclusions

Japan is one of the most important economic partners of the European Union. It should be emphasized that the cooperation between the European Union and Japan is growing, but in recent years the growth rate has been decreasing. The parties are determined to bring to a conclusion negotiations on establishing a free trade area, which will allow both partners to the benefit from both trade and foreign direct investment. The EU and Japan currently negotiate SPA and EPA/FTA agreements, which should deepen their cooperation, enhance their common prosperity and lift their relations to a new strategic level.

It should be noted that the most important reasons for decreasing importance of trade and investment relations between the EU and Japan in recent years were the effects of the economic crisis, the slow-down of the Japanese economy, and the lack of new agreements.

Japan is one of the EU’s main Asian trading partners. Japan exports more to the EU than it imports from the EU. Therefore, the European Union recorded a deficit in trade in goods, e.g. for 2015 it amounted to 3.2 billion EUR. Mutual relations were influenced by the 2008–2009 crisis, which reduced the trade flows.

Japan is also a destination country for European and European Union FDI. European investments come mostly from the EU countries. Of all the countries of the European Union the biggest volume of FDI in Japan was located by Germany, France and the United Kingdom. In the years 2010–2013 a significant weakening of EU investments in Japan was recorded, and in 2015 a withdrawal of EU capital was observed.

The analysis of data on the EU’s FDI inflows to Japan in the years 2000–2015 shows that after successive waves of crisis there was a visible decline in EU FDI located in Japan. Investments from the UK, France and Germany declined significantly in 2013. Interest in locating FDI in Japan declined, which is confirmed by an outflow of EU capital in 2015.

Based on these findings, it can be concluded that European Union's importance as an economic partner of Japan has been slightly weakening in recent years. While the European Union is still the leading trade and investment partner of Japan, the 2008–2009 and 2012 crises had a negative impact on trade and on the FDI flows. At that time a slowdown in trade and FDI was observed.
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JETRO, Japan’s Inward FDI by Country and Region, https://jetro.go.jp.


Streszczenie

WSPÓŁPRACA GOSPODARCZA UNIA EUROPEJSKA – JAPONIA


Słowa kluczowe: współpraca gospodarcza, handel, BIZ, Japonia, UE