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DOI: 10.15290/oes.2023.02.112.05

ABENOMICS AND THE EU–JAPAN ECONOMIC PARTNERSHIP AGREEMENT: CONSEQUENCES FOR THE EU AND POLISH ECONOMIES¹

Summary

Purpose – This paper focuses on Abenomics by showing the measures undertaken by Japan’s administration and by exploring to what extent new trade policy contributes to stimulating FTAs/EPAs. The goal of this paper is to evaluate the potential EU–Japan EPA effects from the perspective of the EU and Poland’s economies.

Research background – In early 2013, Shinzō Abe announced a plan of economic reforms known as Abenomics, within which trade policy would be focused on regional FTAs/EPAs and strategic partnerships (SPAs) that then became a government priority. The Abe administration presented a “proactive contribution to peace”, which has had a crucial influence on Japan’s new trade policy and its engagement in economic regionalism. After six years of negotiations, the EU–Japan EPA and the Strategic Partnership Agreement (SPA) were signed on July 17, 2018. These agreements confirm that economic relations have entered a new, higher phase of development and open new prospects for deeper cooperation.

Methods – Text analysis of governmental documents, institutional reports, companies’ websites, and articles in the specialized press.

Originality/value/implications/recommendations – This assessment of the potential impact of the EU–Japan EPA reveals that the agreement will contribute to the mutual GDP growth and will promote trade in goods and services by eliminating tariffs and reducing non-tariff barriers between the parties. Furthermore, the EU–Japan EPA is important for the Polish economy. Liberalization of imports from Japan, which mainly include modern technologies as well as machinery and equipment for various sectors of the economy, will significantly contribute to accelerating the economic development

¹ Article received on 9.11.2023, accepted on 12.05.2023.

of Poland. In turn, the liberalization of exports will be an opportunity to increase food exports from Poland.

Keywords: international trade, EU, Japan, Poland, abenomics.

JEL classification: F13, F14, F53

1. Abenomics and New Trade Policy

For two decades, the Japanese economy was mired in both stagnations of nominal GDP and deflation. Real GDP and GDP per capita grew marginally and chronic fiscal deficits brought gross public debt to well over 200% of GDP. Moreover, Japan's share of global trade decreased at an alarming pace from about 9–10% of global exports and 6–7% of imports in the 80s and early 90s to about 5–6% of both exports and imports in 2012 [METI 2013, p. 10]. Each of Japan's successive administrations implemented policies attempting to overcome the economic stagnation and deflation, but they managed to achieve only limited success².

The first Shinzo Abe administration began with high hopes of overcoming long-term economic stagnation and deflation³. The philosophy of PM Abe's reforms was presented during his speech in front of the House of Representatives and the House of Councilors after the ceremonial opening of the 166th session of the National Diet on January 26, 2007:

[...] "I would like to make Japan a country that will serve as a new role model in the international community of the 21st century. In order to realize this, we must not be content with the brilliant post-war Japanese success model, which our predecessors started and built from the ruins of the war. Now the time has come to boldly review these post-war regimes all the way back to their origins and set sail on a new course. In order to realize 'a beautiful country', Japan, my mission is none other than to draw a new vision of a nation which can withstand the raging waves for the next 50 to 100 years to come [...]" [Speech on January 26, 2007].

² Since 1989, Japan has seen 17 PMs come and go in 30 years.

³ Shinzō Abe served as PM from September 26, 2006 to September 26, 2007 for 366 days (Abe I period); and again, from December 26, 2012 to September 16, 2020 for 2822 days (Abe II period). The latter is the longest number of consecutive days as PM in Japan's parliamentary history since 1885. The Abe I and Abe II combined, 3188 days, as PM is also the longest (Ito, 2020, p. 4).

PM Abe's plan of reforms included: strengthening economic growth potential, creating a society full of new possibilities that is able to face the challenges of the 21st century, enhancing the attractiveness of regions, conducting an administrative and financial reform of local self-governments, reorganizing the education system, reinforcing health and social services, and conducting active foreign diplomacy. It was also around this time that the term Abenomics was first used in media discourse. However, in 2007, after a series of political scandals, PM Abe tendered his resignation [Grabowiecki 2019, pp. 201–204].

Shinzō Abe was reelected on December 26, 2012, in order to lift the Japanese economy out of stagnation and deflation. At the close of 2012, a new government was formed and announced a new policy package of economic reforms. At the beginning of 2013, PM Abe declared that his aims included: achieving a 2% average real GDP growth rate within the subsequent ten years, supporting the private sector, and gaining a considerable increase in the inflow of FDI and export related to the creation of infrastructure. He also promoted making the labor market more flexible and ensuring greater participation of women in the workforce with the statement “800,000 additional women”. The plan was based on three components: aggressive monetary policy, flexible fiscal policy and Growth Strategy including structural reforms designed to engineer a break from the past to forge a new, progressive future. Thus it is often called the “Three-Arrows Strategy”⁴ (Chart 1).

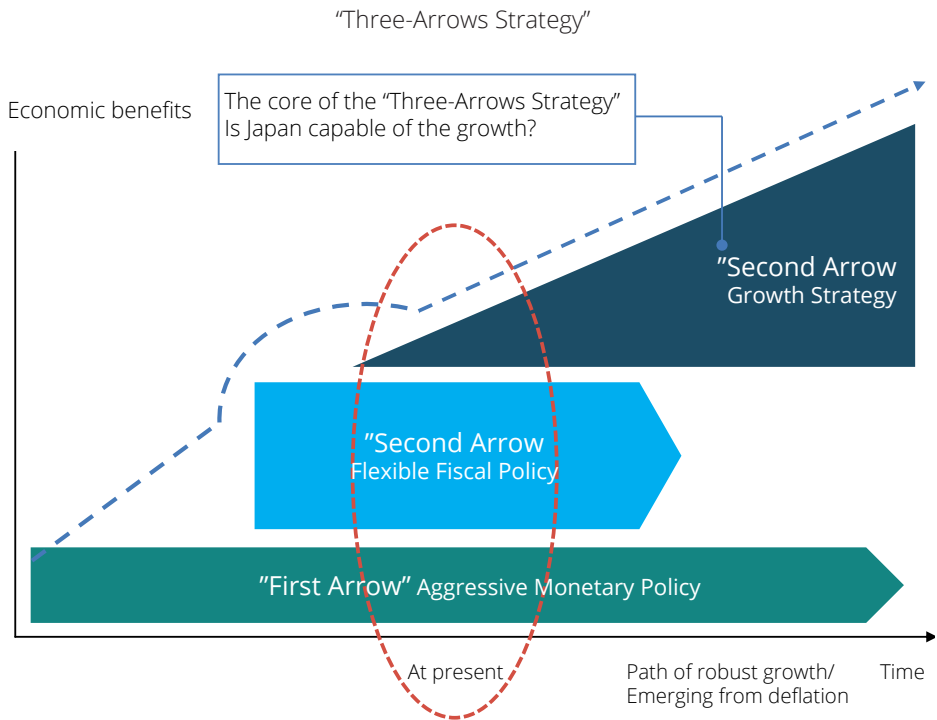
Shortly after his reelection as president of the Liberal Democratic Party in September 2015, PM Abe announced the three new arrows of Abenomics 2.0: ‘hope’ (promotion of economic growth), ‘dreams’ (better child rearing assistance to boost demographic change), and ‘peace of mind’ (increase of the number of nursing care facilities to help people balance work and care for the elderly) [Nippon.com 2015].

Abenomics Growth Strategy was detailed in the document titled ‘Japan Reconstruction Strategy’ which was made public in June 2013 [Kantei, 2013]. The Japan Reconstruction Strategy consisted of three action plans: industry reconstruction plan, strategic market creation plan, and internationalization strategy. In the internationalization strategy, FTAs/EPAs were given special importance for the Japanese economy/industry in expanding international busi-

⁴ By referring to the rich national culture of Japan, Shinzō Abe evoked the parable from the end of the Edo era which implies that a single arrow can easily be snapped, while either a bundle of three arrows together or launching one arrow after another guarantees success. For this reason he decided to “launch three arrows”.

ness. Under this strategy, the share of trade covered by the FTAs/EPAs in total trade was targeted to increase to 70% in 2018 from 18.9% in 2012 [MOFA 2017, p. 74]. Also, the promotion of inward FDI was a prominent part of the Japan Reconstruction Strategy, which aimed at doubling inward FDI stocks to 35 trillion yen by 2020 (17.8 trillion yen at the end of 2012) [Kantei 2013, p. 137].

CHART 1



Source: MUFG [2018, p. 5].

There are three main objectives underlying this intense FTAs/EPAs policy: expanding Japanese exporting companies' market share or providing them with equal coverage by FTAs/EPAs in terms of custom duties and non-tariff barriers, speeding up domestic deregulation, and attracting foreign investments in Japan. [Dourille-Feer, 2015, p. 32; Solis, Urata 2018, p. 107].

Japan is currently a party to 24 FTAs/EPAs agreements and related initiatives (21 in force or signed and 3 under negotiations) (Table 1). The share of trade covered by the FTAs/EPAs in total trade increased to 36.7% in 2019. If RCEP is enacted, the coverage ratio will increase to 63.8% [JETRO, 2019, p. 5].

TABLE 1

Progress of Japan's FTAs/EPAs and Related Initiatives
(as of the end of December 2020)

	Negotiation started	Signed	Effective
In force and signed			
Japan–Singapore EPA	Jan 2001	Jan 2002	Nov 2002
Japan–Mexico EPA	Nov 2002	Sep 2004	Apr 2005
Japan–Malaysia	Jan 2004	Dec 2005	Aug 2006
Japan–Chile EPA	Feb 2006	Mar 2007	Sep 2007
Japan–Thailand EPA	Feb 2004	Apr 2007	Dec 2007
Japan–Indonesia EPA	Jul 2005	Aug 2007	Jul 2008
Japan–Brunei EPA	Jun 2006	Jun 2007	Jul 2008
ASEAN–Japan CEPA	Apr 2005	Apr 2008	<ul style="list-style-type: none"> – Dec 2008 (Singapore, Vietnam, Laos & Myanmar) – Jan 2009 (Brunei) – Feb 2009 (Malaysia) – Jun 2009 (Thailand) – Dec 2009 (Cambodia) – Jul 2010 (Philippines) – Mar 2018 (Indonesia)
Japan–Philippines EPA	Feb 2004	Sep 2006	Dec 2008
Japan–Switzerland EPA	May 2007	Feb 2009	Dec 2009
Japan–Viet Nam EPA	Feb 2007	Dec 2008	Oct 2009
Japan–India EPA	Jan 2007	Feb 2011	Aug 2011
Japan–Peru EPA	Maj 2009	May 2011	Mar 2012
Japan–Australia EPA	Apr 2007	Jul 2014	Jan 2015
Japan–Mongolia EPA	Jun 2012	Feb 2015	Jan 2016
Trans-Pacific Partnership (TPP12)	–	–	–

Source: author's own elaboration based on MOFA [2021].

	Negotiation started	Signed	Effective
Trans-Pacific Partnership (TPP11)	Jan 2017	Mar 2018	Dec 2018 (Mexico, Singapore, New Zealand, Canada, and Australia) Jan 2019 (Vietnam)
Japan–EU EPA	Apr 2013	Jul 2018	Feb 2019
Japan–United States Trade Agreement	Apr 2019	Oct 2019	Jan 2020
Japan–UK CEPA	Jun 2020	Dec 2020	Dec 2020
Regional Comprehensive Economic Partnership (RCEP)	May 2013	Nov 2020	–
Under negotiation			
Japan–Columbia EPA	Dec 2012	–	–
Japan–China–Republic of Korea FTA	Mar 2013	–	–
Japan–Turkey EPA	Dec 2014	–	–
In suspension			
Free Trade Agreement between Japan and the Gulf Cooperation Council (GCC) (JGFTA)	Sep 2006	–	–
Japan–Republic of Korea EPA		–	–
Japan–Canada EPA		–	–

Source: author's own elaboration based on MOFA [2021].

The arrangements made during the 20th meeting of the EU–Japan in May 2011 were the political impetus that caused the commencement of the EU–Japan EPA negotiations. After the meeting, an announcement was published in which Japan and the EU agreed to commence negotiations on an economic partnership agreement as well as on political, global, and sectoral cooperation. The talks on the EU–Japan EPA accelerated together with the first decisions of the Donald Trump's

administration on American trade policy. After the USA's withdrawal from TPP, Japan began paying attention to the possibilities of enhancing cooperation with other countries, including ones within the EU.

After six years of negotiations taking place within 18 rounds, the EU and Japan concluded the EU–Japan EPA and SPA. The key to the successful conclusion of negotiations was, on the one hand, the similarity of both markets with comparable protective structures and, on the other hand, the transparency of trade negotiations. The agreements were officially signed during the Japan–EU summit in Tokyo in July 2018. The EU–Japan EPA and SPA are expected to contribute to the implementation of PM Abe's strategic program called the 'Abe Doctrine' [Danks, 2018]. The agreements were ratified by the European Parliament and the National Diet in December 2018 and entered into force on February 1, 2019.

2. The EU–Japan trade relations

Trade exchange between the EU and Japan is smaller than the EU's trade with the United States, China, Russia or even Switzerland and Turkey. Japan is the 7th most important EU trade partner in the world (Table 2), while the EU is Japan's 3rd most important trade partner (Table 3).

TABLE 2

EU-27 main trade partners, 2019 (Million € and %)

Imports			Exports			Total trade		
Partner	Value million €	World %	Partner	Value million €	World %	Partner	Value million €	World %
World	1,935,379	100.0	World	2,132,002	100.0	World	4,067,382	100.0
1. China	362,015	18.7	1. USA	384,438	18.0	1. USA	616,423	15.2
2. USA	231,986	12.0	2. UK	318,152	14.9	2. China	560,284	13.8
3. UK	193,644	10.0	3. China	198,269	9.3	3. UK	511,796	12.6
4. Russia	144,489	7.5	4. Switzerland	146,770	6.9	4. Switzerland	257,035	6.3
5. Switzerland	110,265	5.7	5. Russia	87,779	4.1	5. Russia	232,268	5.7
6. Turkey	69,780	3.6	6. Turkey	68,280	3.2	6. Turkey	138,060	3.4

Imports			Exports			Total trade		
Partner	Value million €	World %	Partner	Value million €	World %	Partner	Value million €	World %
7. Japan	62,850	3.2	7. Japan	61,134	2.9	7. Japan	123,984	3.0
8. Norway	54,089	2.8	8. Norway	51,577	2.4	8. Norway	105,665	2.6
9. South Korea	47,356	2.4	9. South Korea	43,344	2.0	9. South Korea	90,700	2.2
10. India	39,552	2.0	10. Canada	38,329	1.8	10. India	77,784	1.9

Source: European Commission [2019a].

TABLE 3

Japan main trade partners, 2019 (Million € and %)

Imports			Exports			Total trade		
Partner	Value million €	World %	Partner	Value million €	World %	Partner	Value million €	World %
World	667,919	100.0	World	630,236	100.0	World	1,298,155	100.0
1. China	151,157	10.9	1. USA	125,440	19.9	1. China	271,462	20.9
2. USA	72,578	10.8	2. China	120,305	19.1	2. USA	198,018	15.3
3. EU27	72,323	6.1	3. EU27	61,029	9.7	3. EU27	133,353	10.3
4. Australia	40,605	4.0	4. South Korea	41,330	6.6	4. South Korea	67,795	5.2
5. South Korea	26,464	3.7	5. Taiwan	38,293	6.1	5. Taiwan	62,269	4.8
6. Saudi Arabia	24,710	3.6	6. Hong Kong	30,033	4.8	6. Australia	53,550	4.1
7. Taiwan	23,976	3.5	7. Thailand	26,965	4.3	7. Thailand	49,618	3.8
8. United Arab Emirates	23,398	3.4	8. Singapore	18,015	2.9	8. Vietnam	34,800	2.7
9. Thailand	22,653	3.0	9. Vietnam	14,725	2.3	9. Hong Kong	31,878	2.5
10. Vietnam	20,076	10.9	10. Australia	12,944	2.1	10. United Arab Emirates	29,811	2.3

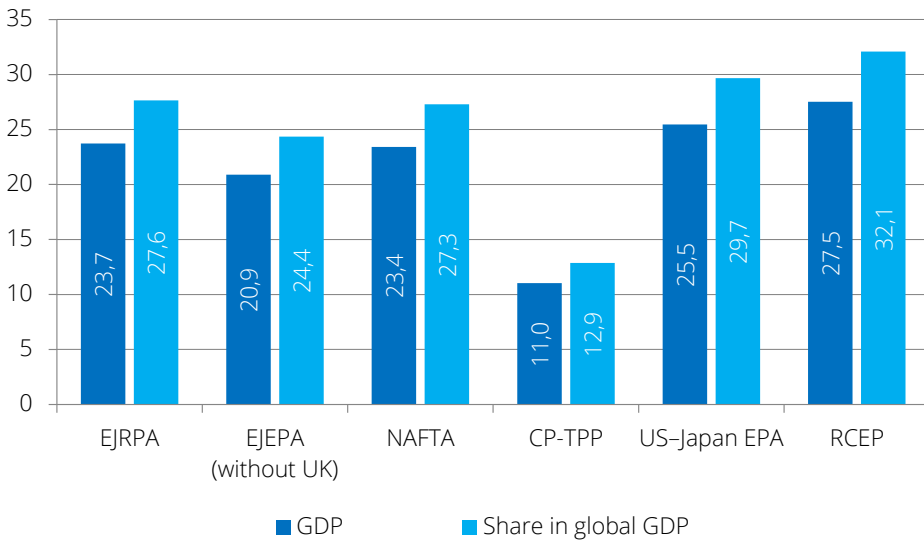
Source: European Commission [2019a].

Due to the removal of tariff and non-tariff barriers, the EU–Japan EPA brings new possibilities with its expansion of markets. Moreover, it impacts the share of trade in goods and services in GDP, which, in 2019, amounted to 43.1% of GDP for the EU and 36.1% of GDP for Japan. [European Commission 2020]. In spite of the fact that mutual exchange is gradually more and more sustainable, Japan, due to the specific structural characteristics of its society and economy as well as formal liberalization, is still perceived as a highly difficult and non-transparent market for European exporters and investors to enter.

The social and economic potential of the new EU–Japan EPA market constitutes about 572 million consumers (7.4% of the world population) and almost 24 trillion USD GDP, which constitutes over 27.5% of the world’s GDP (Chart 2). In market price, GDP of Japan and the EU jointly represents about one third of the world economy. In terms of GDP and population, the EU is about four times bigger than Japan.

CHART 2

Joint GDP share in world GDP FTAs/EPAs and Related Initiatives
(billion USD and %)



Source: author’s own elaboration based on data from the World Bank referring 2019 World Development Indicators. Retrieved from <https://databank.worldbank.org/reports.aspx?source=2&series=NY.GDP.MKTP.CD&country=WLD> (date of access: 21.08.2020).

3. Impact of the EU–Japan EPA on the EU economy

The EU–Japan EPA covers gradual and mutual liberalization of trade in goods, services and investments. This includes the removal of numerous non-tariff barriers (NTMs), the liberalization of rules connected with public tenders as well as the agreement around exchange and cooperation in the field of intellectual property [European Commission, 2021]. The EU assigns a particularly important role to the elimination of non-tariff barriers in Japan, which pertains not only to trade and services, but also to public tenders. In order to protect sensitive European sectors, the agreement includes a safeguard clause. It allows for the suspension of the agreement after one year if Japan does not fulfill its commitments relating to the removal of NTMs.

As a result of the negotiations, the parties agreed that they will allow almost free mutual access to their markets. Ultimately, Japan (15 years after the agreement takes effect) will fully liberalize 97% of its tariff positions (86% immediately after the agreement takes effect) and 99% of transport. Meanwhile, the EU will liberalize 99% of its tariff positions (96% when the agreement comes into enforcement) and 100% of transport. In relation to the 3% of tariff positions which were not fully liberalized, Japan granted significant concessions in the field of tariff quotas and the reduction of custom duties. Apart from the reductions of custom duties, the NTMs relating to agricultural products are reduced or eliminated, and joint rules for establishing origin of the goods, technical barriers in trade as well as sanitary and phyto-sanitary means are implemented.

The EU–Japan EPA underwent assessment by the European Commission and by scientists from Europe, Japan and South Korea in their research papers. In most of them, the main research tool used to assess potential EPA results is the Computable General Equilibrium (CGE) modules. However, adopting different assumptions and using various data sets causes the results of the studies to not be comparable (Table 3).

The EU–Japan EPA results assessment conducted by the European Commission in 2016 covered the social, environmental, and economic consequences of the agreement [European Commission, 2016]. It is estimated that the expected long-term increase in GDP shall amount to 0.76% annually for the EU and 0.3% annually for Japan if the symmetric liberalization policy is adopted. Moreover, the bilateral export shall increase by 34% for the EU and by 29% for Japan while the total growth of export shall amount to about 4% in case of the EU and 6% in case of Japan.

The positive impact of trade liberalization on prosperity is proven by the newest report of the European Commission that assesses the potential effects of the agreement [European Commission 2018]. It is estimated that by 2035, when the EU–Japan EPA shall be fully implemented, the EU's GDP will have

increased by about 34 billion euro (0.14%) and the Japanese economy will have increased by about 29 billion euro (0.6%) compared to the situation without the agreement. It will be accompanied by a growth in exports from the EU to Japan of about 13 billion euro (13.2%) as well as exports from Japan to the EU of about 23 billion euro (23.5%). The relatively higher positive result for Japan stems from the comparison of both economies.

The potential positive impact of trade liberalization for the economies of the EU and Japan as well as particular sectors is represented by the results of a German and Japanese research team [Felbermayr et al. 2019]. Positive influence on prosperity is relatively sustainable in terms of absolute volume (between 15.2 and 18.2 billion USD), but three times higher in relative terms for Japan (0.31% of GDP in Japan, 0.10% GDP in the EU). It is estimated that due to the decrease in custom duties and reduction of NTMs, the bilateral export shall increase by 83 billion USD (73%) for the EU and by 79 billion USD (63%) for Japan. Moreover, the analysis of the potential impact of the EU–Japan EPA on particular sectors indicates the effect of relocation of agri-food products and goods in general as well as the effect of formation in services trade.

Another study pertaining to the effects of the EU–Japan EPA was conducted by Grübler et al. [2019] who also studied the liberalization of custom duties and NTMs for all the EU member states. The positive effects of NTMs, resulting from the lowered cost of obeying rules through their international standardization, include a prosperity growth for the EU countries ranging from 0.003% of GDP in Denmark to 0.028% of GDP in Holland. In Japan, the improvement in prosperity will amount to about 0.009% GDP. In the manufacturing sector, the highest growth is expected in both medium and high-tech. However, positive results will not pertain to all the EU countries; research suggests minor losses in terms of real positive value in those branches for some Central and Eastern European Countries (CEECs) that are the EU members. It is also surprising that the results for the agri-food sector are rather moderate despite a significant decrease in entry costs to the Japanese market for European exporters.

Yui [2020] indicates the potentially positive effects of trilateral trade liberalization within the Korea–Japan–EU FTA both for the economies in the agreement and for the global economy in general. Liberalization of custom duties and NTMs influences the EU's GDP growth by 332 million USD and Japan's GDP growth by 750 million USD (Table 4). Within the trilateral Korea–Japan–EU FTA, Japan shall increase its exports to the EU and vice versa due to trade formation effects and improvement of trade efficiency. Simulation includes the liberalization of custom duties in manufacturing industries such as textile and apparel (Text-Wapp), light

manufacturing (LightMnfc), and heavy manufacturing (HeavyMnfc). The number of exports of TextWapp from the EU to Japan is expected to rise by 30.3%, LightMnfc by 24.7%, and HeavyMnfc by 28.46%. In turn, Japan's TextWapp exports to the EU are expected to rise by 34.52%, LightMnfc by 27.62%, and HeavyMnfc by 31.11%, respectively. It is anticipated that import volume will also increase due to the income effects of extended trade on most branches of industry. According to Yui, since the Korea–Japan–EU free trade agreement can influence GDP and trade growth, Japan, South Korea and the EU, instead of the Japan-Republic of Korea EPA or the EU–Japan EPA, should introduce a trilateral agreement on free trade in the near future.

TABLE 4.

Summary of empirical studies on macroeconomic impact of the EU–Japan EPA

Author	Date source	Technique	EPA effects	
			EU	Japan
Directorate-General for Trade European Commission [2016]	World Bank, IMF, OECD etc.) and academic literature	CGE model	<ul style="list-style-type: none"> – Long-run prosperity effect: 0.76% GDP – Export's growth effect: 34% 	<ul style="list-style-type: none"> – Long-run prosperity effect: 0.29% GDP – Export's growth effect: 29%
Directorate-General for Trade European Commission [2018]	GTAP Database IMF and European Commission forecasts, ILO and CEPII Databases	CGE model	<ul style="list-style-type: none"> – Long-run prosperity effect: 33,8 bln € (0.14% GDP) – Export's growth effect: 13,541 bln € (13.2%) 	<ul style="list-style-type: none"> – Long-run prosperity effect: 29,066 bln € (0.61% GDP) – Export's growth effect: 22,215 bln € (23.5%)
Felbermayr Kimura Okubo Steinger [2019]	World Input-Output Database (WIOD)	Multi-country Ricardian general equilibrium model extended to incorporate rich value chain interactions, and non-tariff trade costs	<ul style="list-style-type: none"> – Long-run prosperity effect: 15 bln USD (0.10% GDP) – Export's growth effect: 83 bln USD (73%) 	<ul style="list-style-type: none"> – Long-run prosperity effect: 18 bln USD per year (0.31% of GDP) – Export's growth effect: 79 bln USD (63%)

Author	Date source	Technique	EPA effects	
			EU	Japan
Grübler, Reiter, Stehrer [2019]	WTO I-TIP Database	Structural gravity model including a proxy for NTMs	<ul style="list-style-type: none"> – Export’s growth effect: 0.10% of real value-added Germany, Britain, and Netherlands in the medium-high-tech industries. CEE countries losses in the medium-high-tech industries 	<ul style="list-style-type: none"> – Export’s growth effect: 0.62% of real value added in medium-high-tech manufacturing
Yi [2020]	GTAP Database	CGE model	<ul style="list-style-type: none"> – Long-run welfare effect: 334 mln USD (0.0% GDP) – Export’s growth effect: <ul style="list-style-type: none"> • TextWapp (30.3%) • LightMnfc (24.7%) • HeavyMnfc (28.46%) – Import’s growth effect: <ul style="list-style-type: none"> • TextWapp (0.23%) • LightMnfc (0.51%) • HeavyMnfc (0.36%) 	<ul style="list-style-type: none"> – Long-run welfare effect: 750 mln USD (0.02% GDP) – Export’s growth effect: <ul style="list-style-type: none"> • TextWapp (34.52%) • LightMnfc (27.62%) • HeavyMnfc (31.11%) – Import’s growth effect: <ul style="list-style-type: none"> • TextWapp (1.36%) • LightMnfc (4.90%) • HeavyMnfc (2.96%)

Source: European Commission [2016], European Commission [2018], Felbermayr, Kimura, Okubo, Steininger [2018], Grübler, Reiter, Stehrer [2019], Yi [2020].

4. Poland’s trade relations with Japan

For decades, Poland had not been in Japan’s field of interest. This situation changed considerably when Poland entered the EU. Despite improvements in mutual relations, there are still many areas and possibilities to enhance them as highlighted by PM Abe during his short visit to Poland in June 2013 for the commemoration of the ‘V4+Japan’ group. The Prime Minister of Japan reminded the audience that Poland and Japan signed a declaration on strategic partnership in 2003 and highlighted that there is untapped potential for cooperation in the field of energetics, particularly one based on coal that uses the technology to produce ‘pure energy’. Moreover, Japanese nuclear energetics strictly connected with American and French companies are also interested in participating in the development of these kinds of energy plants in Poland. Another potentially significant area of extended cooperation is in the field of environmental

protection. There are also unexploited possibilities in the fields of finance, technology, science and widely understood services [Polish-Japanese Economic Committee 2013].

For Japan, Poland is a natural bridge into the EU. This is proven by yearslong trade and investment engagement in Poland of the biggest capital and industrial groups keiretsu as well as sogo-sosha such as Mitsui, Mitsubishi, Toyota, NSK, Bridgestone, Sumitomo, Hitachi, Sharp, or Marubeni, Itochu, Bank of Tokyo Mitsubishi. Not only do they develop bilateral cooperation, but also collaborate with third markets on a large scale.

Trade exchange between Poland and Japan has the largest deficit apart from Poland's exchange with China, Russia, and the Republic of Korea. It is a consequence of a considerable imbalance between the size of import from and export to the Japanese market. In 2019, import to Poland was almost three times greater than export. A considerable imbalance between the volume of import from and export to Japan translates into a deep deficit of trade exchange, which in 2019 amounted to over 1.240 billion euro. Compared to the level from the previous year, this deficit deepened by over 323 million euro. It is connected with the structural advantages of the Japanese economy over the Polish economy both in terms of work efficiency and level of innovativeness of production. Imports from Japan mainly cover modern technologies as well as machines and equipment for various sectors of the economy, which, to a great extent, influences the acceleration of Poland's economic growth. It should also be highlighted that such high import is also generated by Japanese investors, who conduct economic activity in Special Economic Zones (SEZs) and then export to European and non-European markets⁵.

Among CEECs that are members of the European Union, Poland is Japan's most significant trade partner. In 2019, Poland ranked second for exports, after the Czech Republic, and first for imports (Table 5).

⁵ Among 14 SEZs operating in Poland, the Japanese companies are present in 12 of them with 3 major ones. Outside SEZs, the Japanese investments are concentrated mainly in Warsaw. The number of Japanese enterprises in key locations is as follows: 1) Warsaw (21 Japanese companies – with entities such as Bridgestone Corporation operating on the premises of 3 different SEZs); 2) Pomeranian SEZ (14 companies); 3) Katowice SEZ (13 companies); 4) Wałbrzych SEZ INVEST-PARK (10 companies) [Głogowski, 2019].

TABLE 5

Poland's share in trade of goods with Japan in comparison to EU27
from the group of CEECs (Thousand € and %)

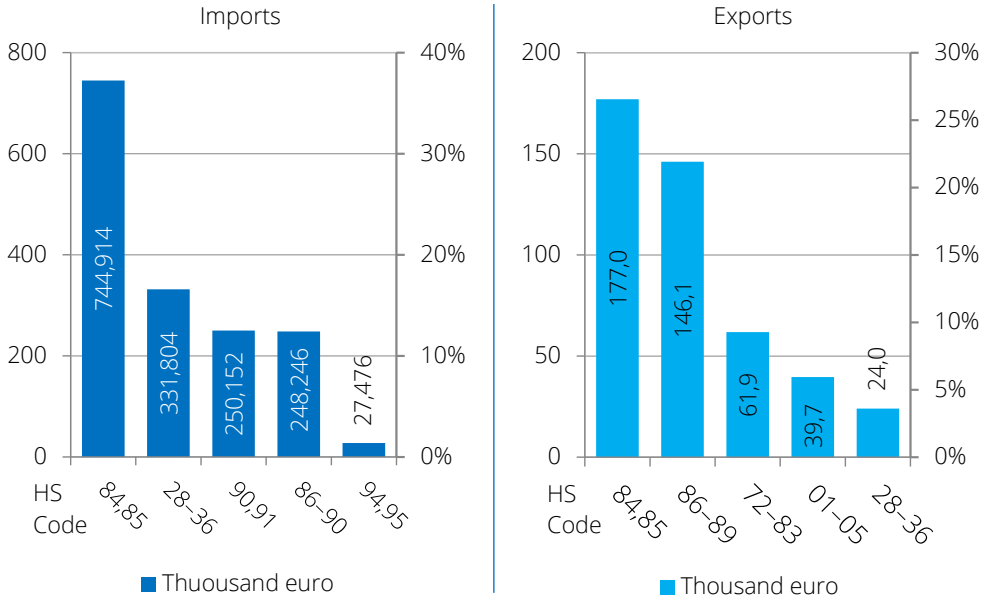
Imports			Exports			Total trade		
Partner	Value Thousand €	%	Partner	Value Thousand €	%	Partner	Value Thousand €	%
1. Poland	1,909,572	3.0	1. Czech Republic	879,842	1.4	1. Poland	2,529,092	2.0
2. Czech Republic	1,546,612	2.4	2. Poland	669,520	1.0	2. Czech Republic	2,426,454	1.9
3. Hungary	1,356,090	2.1	3. Hungary	431,761	0.7	3. Hungary	1,787,611	1.4
4. Romania	299,893	0.5	4. Romania	270,753	0.4	4. Romania	570,646	0.5
5. Slovakia	180,296	0.3	5. Lithuania	180,446	0.3	5. Slovakia	326,438	0.3
6. Bulgaria	146,133	0.2	6. Slovakia	146,169	0.2	6. Lithuania	237,642	0.19
7. Slovenia	123,659	0.19	7. Slovenia	83,995	0.1	7. Slovenia	207,654	0.16
8. Estonia	64,550	0.1	8. Estonia	79,767	0.1	8. Bulgaria	196,656	0.16
9. Lithuania	57,196	0.09	9. Latvia	58,412	0.09	9. Estonia	144,317	0.12
10. Croatia	39,135	0.06	10. Bulgaria	50,523	0.08	10. Latvia	86,411	0.06
11. Latvia	27,999	0.04	11. Croatia	39,184	0.06	11. Croatia	78,316	0.06

Source: European Commission [2019b].

Almost half of the Polish exports to Japan include electrical machinery (HS 84,85) and transport equipment (HS 86–89) (Chart 3). Following those categories, the next position in sales to the Japanese market is occupied by base metals and articles of base metal (HS 72,73) followed by agri-food products (HS 01–05). Imports from Japan are also dominated by products from the electromechanical industry. Following this category are mainly products from chemical or connected industries (HS 28–36) and miscellaneous manufactured articles (HS 92–95).

CHART 3

Commodity structure of Poland's trade with Japan by top five product groups in 2019 (Thousand € and %)



Source: European Commission [2019b].

5. Impact of the EU–Japan EPA on Polish economy

From the Polish perspective, trade liberalization within the EPA is beneficial in several respects as highlighted by Przeździecka et al. [2019]. They examine the influence of bilateral elimination of custom duties on GDP, production, foreign trade, and social prosperity of Poland compared to other countries and regions.

The analysis of potential effects of the EU–Japan EPA indicates that Polish global exports can increase by 135.31 million USD, even when in some sectors they will decrease. Moreover, none of the sectors suffer due to a drop in exports to Japan, and the greatest beneficiaries will be producers and exporters of meat and animal products. In spite of the fact that the Japanese food market is very demanding, many Polish producers are able to meet its needs. However, this can be realized if Japan abolishes sanitary or technical barriers in meat import. To make that happen, Poland first needs to cope with the problem of African swine fever (ASF).

A forecasted positive effect of the EU–Japan EPA is a much greater demand growth for highly qualified workforce and capital. Taking into account the direction of changes in the global economy to economies based mostly on knowledge, it is a positive phenomenon. On the other hand, in some areas, possible negative effects were identified, such as a drop in real GDP in Poland as well as a decrease in global export in some sectors. It can be a result of a redirection of trade flows.

The potentially unfavorable structure of Polish export to Japan will also have a negative influence on social prosperity. It can happen due to two factors: an increase in the price of consumption goods available on the national market (in some sectors, e.g., cereals and produce, meat and products of animal origin, processed food) as well as an increase in prices of some imported goods. However, the dynamics of change of imported goods is low, which, combined with the increase in terms of trade, means that the total income of households shall slightly rise due to the EPA.

The arrangements pertaining to the potentially positive EU–Japan EPA results for the agri-food sector in Poland were proven by research [Ambroziak 2018]. Trade liberalization will be a chance for increasing the export of Polish food, mainly meat and meat products, fish and fish products, chocolate and chocolate products as well as vodka. Restricted possibilities of export growth will relate to the manufacturers of dairy products and products based on cereal and milk, as Japan opened its market for those products to a lesser extent. There is no doubt that the activities allowing Polish producers to enter the Japanese market should be intensified, e.g., by organizing activities promoting Polish food in Japan. After the agreement takes effect, access to the Japanese market on identical terms will also be granted to producers from the other 27 EU countries. This, in turn, will translate into more intensive competition on that market. The EU–Japan EPA coming into effect will not be a threat to Polish food producers. Imported products are not competitively priced due to the high costs of production in Japan. The EU–Japan EPA may, on the other hand, impact the increase in import of products related to traditional Japanese cuisine.

6. Conclusions

The Japanese government has placed great importance on the FTAs/EPAs as essential components of its new trade policy and Abenomics. Mega trade agreements, particularly the EU–Japan EPA, were expected to contribute to a speedy recovery from stagnation and stagflation both by increasing exports and FDI and by improving productivity.

The EU has never been a priority to Japan in terms of economic relations. There were numerous trade conflicts between Japan and the EU in the past. Protectionist policy, functioning of capital and industrial groups like keiretsu, and, moreover, cultural differences and natural barriers, like geographical distance, did not foster mutual relations. A distinct change in economic relations between Japan and the EU took place with the signing of both the EU–Japan EPA and SPA in 2018. The agreement is the greatest and most comprehensive trade settlement of a new generation.

According to the assessment of the potential effects of the EU–Japan EPA conducted by the European Commission and international research teams from Germany, Japan and Poland, the agreement will influence mutual GDP growth and will promote trade in goods and services by eliminating tariffs and decreasing NTMs.

The EU–Japan EPA is of crucial importance to the Polish economy. Trade liberalization in Japan, which covers mainly modern technologies as well as machines and equipment for various economic sectors, will influence the acceleration of Poland's economic development. On the other hand, export liberalization will be a chance to increase the export of Polish food.

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