

LINKED TOGETHER FOR 150 YEARS:
HUNGARY AND JAPAN
ANALYSES OF RECENT ECONOMIC
AND SOCIAL TRENDS IN JAPAN AND
THEIR EFFECTS ON HUNGARY

Chief Editor: Csaba Moldicz

Editor: Amadea Bata-Balog



BUDAPEST BUSINESS SCHOOL
UNIVERSITY OF APPLIED SCIENCES
2019

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ISBN: 978-615-5607-61-5

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Chief Editor: Csaba Moldicz

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Cover design and graphic: János Baksa

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Publisher: Budapest Business School, University of Applied Sciences
Oriental Business and Innovation Center Book Series

Printed in Hungary

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Preface

The collected volume “Linked Together for 150 Years: Hungary and Japan” emerged from the framework of the Oriental Business and Innovation Center (OBIC) over the course of 2018.

Since the team at OBIC began to focus on research in 2016, six books have been published as part of the OBIC Book Series. These texts cover a diversity of topics ranging from economic development strategies to collected works focusing on a single country. This new collection attempts to touch upon some of the social and economic trends in Japan that have a relevance to Hungary. The obvious occasion for the 2019 launch of this book is that it is the anniversary of 150 years of diplomatic relations between Hungary and Japan, however, it must be underlined that an anniversary is not sufficient reason to launch a book: solid research papers are also needed.

The authors whose work is presented in this book are either affiliated with the Budapest Business School, the Faculty of International Management and Business, or have been affiliated in some capacity to this faculty in the past, and thus the book represents many years of research and local knowledge. Given this background, it is easily understandable why the phrase, “It is our greatest pleasure to present this book now” is more than merely a courtesy from our side.

The chapters of the book basically aim to improve local knowledge of Japan’s economic and social development in different disciplines, ranging from micro-economic to macro-economic, as well as regional analyses.

We are very thankful for the assistance provided by the Japan Foundation, Budapest and last but not least the founders of OBIC: the Central Bank of Hungary and the Budapest Business School, without whose generosity and commitment to scholarship this volume would not have been possible.

The Chief Editor of the book:
Csaba Moldicz, PhD



Japanese Firms in Hungary: Skills Supply and Demand A Socio-Cultural Background*

Anna Székács – Noriko Sato

1. Introduction

The appearance of Japanese firms in Hungary has a short history. The Hungarian-Japanese trade relations were developed from the end of the 1970s, with the Japanese trading houses being opened. These trading houses directly helped the appearance and operation of production companies immediately before and after the change of regime. This also contributed to the fact that Hungary was in a competitive position at that time and more and more Japanese companies favored Hungary compared to other Eastern European countries. After the turn of the millennium, Hungary's accession to the European Union further strengthened Hungary's position and the number of companies reached 165 by 2007 (of which 53 were manufacturing companies). As a result of the financial and economic crisis of the Lehman shock, this number temporarily declined (by 2014 only 151), but it recovered by 2018, with JETRO¹ showing 160 Japanese companies, 50 of which were manufacturing companies. Manufacturing companies need a highly trained and efficient workforce. According to the JETRO survey (December 12, 2017), a number of Japanese companies have recently claimed that one of the biggest challenges to their operations in Hungary is the acquisition and retention of labor. One of the reasons for this is that the organizational structure and organizational culture of Japanese companies differs in many respects from the ones in Hungary. Expectations differ because Japanese thinking works along other values. The differences in expectations and the lack of knowledge of Japanese corporate culture on many occasions have led to conflicts between Hungarian and Japanese workers, and Hungarian employees and Japanese management. In this study, we are trying to expose whether these conflicts can be solved by introducing Japanese thinking and culture, and whether workers with such knowledge are in need, whether there is a need for the aforementioned from the Japanese companies' side. Can this knowledge be taught at all and, if so, how? What do special

* Translated by Amadea Bata-Balog

¹ Japan External Trade Organization is a commercial organization of the Japanese government, one of which is to promote economic cooperation with foreign companies.

expectations mean, what are the factors that make joint work harder for Hungarian employees from a Japanese perspective, and what kind of cultural background can it be traced back to? Has the labor situation changed since research carried out in 2008? Does the effect of generational change occur? We compare the results of the 2008 research with the current situation. We analyze what is it that an employee at a Japanese firm should be prepared for, and what is it difficult or unfeasible to be prepared for, and why. We also deal with how to prepare. The authors of the study have been teaching Japanese business language, business communication, and negotiation techniques for more than thirty years, in addition, they hold a Far Eastern intercultural management course at the Faculty of International Management and Business (FIMB) of the Budapest Business School (BBS). Students learn economics, commerce, marketing, and many are enrolled in English or French programmes, but in general they speak 2-3 European languages at a high level and besides that they choose Japanese. Before they graduate, they take a semester of compulsory internship. Some of the students studying Japanese have the chance to participate in university partial trainings with a scholarship in Japanese language area. Many choose Japanese companies in Hungary or find a workplace in Japan for their internships. In thirty years, the number, the situation and needs of domestic Japanese companies have changed significantly. At the beginning, many of our former students started at companies working with a large number of Japanese employees and achieved major careers. It further provided an opportunity to recruit and hire colleagues, employees who had also graduated from BBS. Thus, a multi-generational partnership could be established between some domestic Japanese firms and the BBS FIMB. In our research, we introduce the situation and development of Japanese firms in Hungary by summarizing the history of the literature and with recent data, besides comparing the results of the previous surveys with the results of the 2018 research. We interviewed Masahide Honda, head of the JETRO Budapest Office and co-worker Laura Balázs, as well as our former students in leading positions of domestic Japanese companies. We introduce the resulting situation by the revealing of the socio-cultural background.

2. Japanese Firms in Hungary: Background until 2008

2.1. The Beginnings

After the post-war frosty period, Hungarian-Japanese diplomatic relations were renewed in 1959 with the formation of the Hungarian Embassy, and in 1960 it was followed by the restoration of economic relations with the opening of the Trade Office

in Tokyo. The easing of the Cold War made it possible for trade relations to start, however at the beginning, there was only a little room for maneuver for the country as the Soviet interests set the course and line. The tangible sign of the strengthening of relations was the Hungarian-Japanese payment agreement of 1961, and the rise of diplomatic relations to the ambassador level in 1964. The excellent performance of the Hungarian athletes at the Tokyo Olympics also brought a great deal of recognition to Hungary. Although trade relations were unequal, they showed a development² that was further promoted by the "new economic mechanism" of 1968. Aluminum exports began and, living with the new opportunities, taking advantage of the development of the Japanese industry, some technical products were imported too. Subsequently, cultural and commercial agreements were concluded from the 1970s, and organizations promoting relations, information exchange, economic cooperation were established in both countries, such as the Hungarian-Japanese Economic Club founded in 1971, or the Japanese-Hungarian Section of the Inter-Parliamentary Union formed in 1973 in Japan. In 1975, the Trade and Shipping Agreement between the two countries was signed, which provided the principle of maximum discount. From the 1970s onwards, in addition to trade relations, Hungary also negotiated a credit agreement with Japan. During this period, commercial loans dominated, Japanese banks financed machinery purchases and other specific projects (Boromissza, 2007, p. 20). In 1979, a Memorandum of Understanding on Technical and Scientific Cooperation was signed, and in 1980 an agreement on the avoidance of double taxation was concluded. The Hungarian-Japanese commodity turnover increased by about 400 times by 1980 compared to the 1967 data³. By the end of the 1980s, exports increased eightfold, and imports almost doubled⁴. One of the reasons for this was the fact that Hungary was included in the Generalised Scheme of Preferences (GSP) system in 1986 as well as that the branches of large Japanese trading houses settled in Hungary, the main objectives of which was to strengthen trade. In addition to boosting traffic, the representative offices of the trading houses also worked to promote productive investments. The Japanese companies' willingness to invest was increased by the fact that these Japanese companies took over the acquisition of business information, the mediation between the Hungarian authorities and the companies. It is well known that the Japanese always trust much more (in the past as well as today) in their own citizens than in foreign providers. Only one of the reasons for this is the question of trust,

² In 1967, Hungarian exports to Japan were USD 1.3 million according to Japanese statistics, however Hungarian statistics recorded a turnover of HUF 13.5 million (Kiss, n.d.)

³ By 1980, exports reached HUF 402 million, while imports amounted to HUF 4.354 million (Boromissza, 2007, p. 21).

⁴ By 1987, exports amounted to HUF 3.282 million, while imports were HUF 7.117 million (Boromissza, 2007, p. 21).

the other is the cumbersome communication, the incomplete knowledge of English. From the second half of the seventies a proliferation of an office network in Eastern Europe was started by the trading houses (Itochu Corporation, Marubeni, Mitsubishi, Mitsui, etc.). Itochu's representative office in Hungary opened in 1978. Initially, their main task was to stimulate imports (textile, machinery, chemical products, food products), but later it was expanded to provide investment advice, administration and support (Sekimoto, 2008). This office helped establish the first Japanese production investment, Polifoam Kft. in 1984, where production started in the second half of 1986 on the basis of Japanese technology (Boromissza, 2007, p. 40). In 1985, Osamu Suzuki, president of Suzuki Motor Corporation, made a proposal to manufacture cars in Hungary, and again it was the Itochu's commercial office contributing to the decision to implement the Suzuki car factory in Esztergom within the framework of a joint venture (Tanaka, 2014, p. 215). In the preparation of the Suzuki project and the political decision in 1987, the Hungarian-Japanese Economic Club also played a major role. After 1987, another chemical investment was made (Agroferm, Salgótarjáni Üveggyapot Rt.), and Japanese investors set up a producing company in the form of a greenfield investment with Hungarian state-owned enterprises. Also in these cases, it was the local branches of Japanese trading houses that helped to find the right Hungarian partner and assisted in the investment process and implementation.

2.2. Joint Ventures and Japanese Firms with Foreign Operation in Hungary after the Change of Regime

The investor and company formation processes that started in the period right before the change of regime have intensified since the early nineties. The Suzuki investment was concluded in January 1990 and was the result of many years of negotiation. The construction of the plant started in November, and in April 1991 the joint Hungarian Suzuki Corporation venture was established⁵. The plant was completed by December. Although most of the workers were trained in Hungary, in 1991 seventy Hungarian workers traveled to Japan to take part in a preparatory training programme at the Suzuki Motor Co. in Kosai in Japan. There were some wrangles between the workers from Esztergom who took part in the training and the Japanese host, which could have been caused by the differences in corporate culture. Hungarians criticized the Japanese working conditions (the daily one-and-a-half-hours overtime and the

⁵ Distribution of ownership of the Hungarian Suzuki Corporation joint venture: Suzuki Motor Corporation (40 percent), Itochu (11 percent), International Finance Corporation (9 percent) and Autókonzern formed from forty Hungarian firms (40 percent) (Boromissza, 2007, p. 41).

meals). Finally, eight members of the group returned home early. According to the ex post analyzes, the initial conflict was caused by the lack of accurate information (the workers were not aware of the detailed content of their contract) and the difference in lifestyle and eating habits (small portions, many fish and rice) and, thirdly, the monotony of the long work beside the production lines. It provoked controversy in the workers that smoking and drinking were forbidden, that the working conditions were too strict and the hourly wage was too low. Suzuki reacted quickly to the conflict with the help of *nemawashi* 根回し (laying the groundwork, making necessary arrangements) (Tanaka, 2014, p. 219). By April 1993, a total of one hundred and fifty Hungarian workers were trained at the Suzuki Motor Co. Kosai factory, and no further conflict arose, moreover the Japanese management was extremely pleased with the professionalism of the Hungarian maintenance staff. In 1992, the first Hungarian Suzuki was produced, and next year the production and sale of Suzuki cars started in Esztergom. During the first two years of operation of the company, Hungarian Suzuki Rt. subcontracted with thirty-three Hungarian companies (Makó – Novoszath, 1995, p. 58). By 1991, together with Hungarian Suzuki, 5 Japanese manufacturing companies were operating in Hungary. By 1997, this number rose to 15, and by 2000 it was 32. The rest of the countries in the region were lagging behind Hungary, in 1991 only the Czech Republic had a Japanese manufacturing company, a total of one, and later in 1993 one was established in Poland, and in 1994 in Slovakia. Hungary managed to preserve its leading position in terms of investments until the late nineties, and this was due to the fact that Hungary welcomed foreign direct investment while the Czechs and Poles had reservations. During this period, the Japanese found political stability in Hungary, there were investment incentives and there was infrastructure for transportation, hence Hungary was the leading investment destination until the turn of the millennium (Balázs, 2002, pp. 85-86). Another advantage of the favorable investment environment was the fact that, Hungary was the first Eastern European country to sign a visa waiver agreement with Japan, according to which from 1992 in the first place official journeys were visa-free, and then from 1997, visa-free travel was fully implemented (Boromissza, 2007, p. 22).

In the 1990s, the number of commercial representations of Japanese firms increased significantly and the spectrum they represented was expanding. In addition to assembly companies (Suzuki, Sony), producers of photographic products, office machines, instruments (Minolta Hungary, Fujifilm, Hitachi, Nikon, Canon, Omron) and producers of entertainment electronics (Yamaha, Alpine, Aikawa, Clarion, TDK) appeared (Bassa, 2007, p. 57; Boromissza, 2007, p. 43). The direction of Japanese investors changed from the second half of the nineties, instead of opening new commercial offices, the manufacturing industry itself was moved to Hungary, mostly from the Far

East. The possibility of Hungary joining the EU also played a role in this, so Japanese companies could significantly reduce their customs burden (Boromissza, 2007, p. 44). Producers of car parts that arrived in the second half of the nineties (e.g. Denso, 1997) brought some of their suppliers, and doing so they started a process, a wave of suppliers of small and medium-sized companies. In addition to automotive companies, those working in the electronics industry also mostly preferred their foreign suppliers over Hungarians. The parent companies rather trusted in their old suppliers, the Japanese firms because they were able to ensure Japanese quality. Suzuki's deputy chief executive, László Urbán's claims that the clients had such high expectations for suppliers that could not be met without innovation skills, excellent work organization, cost-cutting capability and follow-up were already true at that time (Lukács, 2015). Approaching the EU accession, and after becoming a member, the stock of foreign direct investment in Japan continued to grow in Hungary. By 2006, according to the data of JETRO's Budapest office, the number of Japanese companies increased to over one hundred, including a manufacturing company, a commercial and financial company, a representation, a logistics company, as well as an R&D company. In this period, about 320 Japanese worked in Japanese firms in Hungary with a total workforce of around 25,000 (Székács – Sato, 2008, p. 118).

3. The Japanese Companies in Hungary between 2008 and 2018

3.1. The Evolution of the Number of Companies and the Workforce between 2008 and 2018

Over the past ten years, there has been waves in both the number of companies and the number of employees they employ. While figures show an increase between 2007 and 2009 (the highest number was registered in 2008, a total of 167 companies), the number of companies decreased after 2009 and the bottom of the decline was 2014. During the years of the crisis, major Japanese factories closed their gates, including Sony, TDK and Sanyo among others. Afterwards, the number of companies started to grow again, and by the year 2018 it approached the 2008 numbers again, and in 2018, 160 domestic Japanese companies were registered (JETRO Budapest, 2018). Between 2012 and 2016, several new firms have chosen Hungary, such as Takata, TS Tech, JSR or NHK Spring. There was also an example of a Japanese company acquiring a parent company of a non-Japanese manufacturing company operating in Hungary, and thus Japanese corporate presence was further strengthened in Hungary (Biró, 2016).

Table 1

Trend of Japanese companies

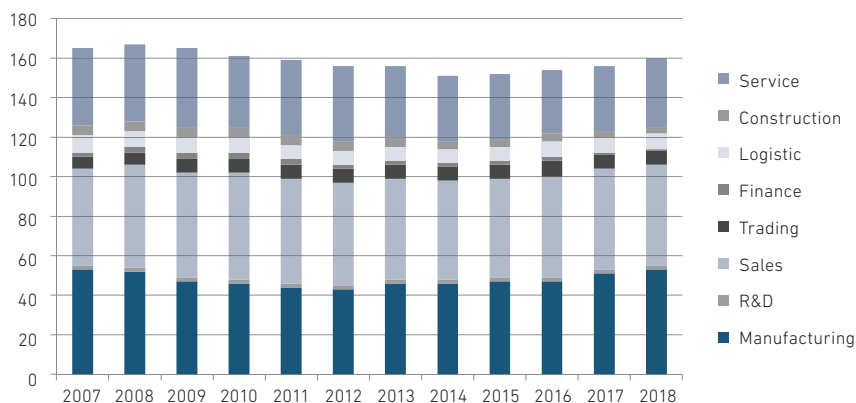
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Manufacturing	53	52	47	46	44	43	46	46	47	47	51	53
R&D	2	2	2	2	2	2	2	2	2	2	2	2
Sales	49	52	53	54	53	52	51	50	50	51	51	51
Trading	6	6	7	7	7	7	7	7	7	8	7	7
Finance	2	3	3	3	3	2	2	2	2	2	1	1
Logistics	9	8	8	8	7	7	7	7	7	8	8	8
Construction	5	5	5	5	5	5	5	4	4	4	3	3
Service	39	39	40	36	38	38	36	33	33	32	33	35
Total	165	167	165	161	159	156	156	151	152	154	156	160

Source: JETRO Budapest, 2018.

There are many reasons for the fluctuation. According to Masahide Honda, CEO of JETRO Budapest, the number of companies during the Lehman shock period fell due to the economic crisis, but it is now starting to return to its 2007 level. The 2011 disaster also made the situation of producers and suppliers difficult. At the same time, the Hungarian economy has strong competition in the Eastern European region with regard to Japanese investments, referring to the Polish and Czechs. The initial Hungarian superiority has run out and the current situation is that most Japanese companies in the region, including producer and non-producing companies, are in Poland (300 companies). It is followed by the Czech Republic with 250 companies, and after that comes Hungary with 160 companies today.

Diagram 1

Trend of Japanese companies



Source: JETRO Budapest, 2018.

According to the graph prepared by JETRO Budapest, there was no significant change in the sectoral distribution of Japanese companies in Hungary between 2008 and 2018: almost one third are manufacturing companies, one third are trading companies and one fifth are service companies (JETRO Budapest, 2018). There was a positive turnaround regarding the composition between 2012 and 2016: while the number of representative offices with 1-2 employees was nearly 8 percent lower than before, concerning the number of manufacturing companies, a 7 percent increase was recorded (Biró, 2016).

Table 2

Number of Japanese companies and employees

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of local employees	26 086	28 313	23 090	21 593	23 457	25 523	25 238	26 412	28 702	30 923	33 938	33 609
Number of Japanese companies	159	161	159	155	151	148	146	147	147	151	156	160
Number of employees from Japan	322	315	274	241	230	235	250	271	293	324	314	335
	1,23%	1,11%	1,19%	1,12%	0,98%	0,92%	0,99%	1,03%	1,02%	1,05%	0,93%	1,00%

Source: JETRO Budapest, 2018.

In terms of the number of employees, the number of employees recruited in Hungary was somewhat different compared to the progress in the number of companies being at the lowest in 2010 (21,593 people), and then from 2014 it shows a more dynamic growth. In 2016, it exceeded 30,000 and currently there are nearly 34,000 local employees. The number of workers seconded from Japan was at its lowest in 2011 (230 people), then increased gradually, and by 2016 it recovered to the level of 2007 and currently it is 335 people. Approximately 1 percent of the number of employees enrolled here is seconded from Japan. This rate was the lowest with 0.92 percent in 2012. As a sluggish trend, it is apparent that in more and more companies, the Hungarian executives are taking over the position of the Japanese. According to the survey, the largest employers are Denso, Suzuki and Ibiden, but also in six other companies the number of workers exceed 1,000 (JETRO, 2017).

The regional location of Japanese companies in Hungary was previously characterized by preference for the capital, or places close to the capital, being easily accessible (Bassa, 2007, p. 58). According to the 2014 data, the majority of the companies were in Central Hungary. Out of these, 80 percent of manufacturing companies (37 out of 46) operated in the countryside in 2014. Most of them were located in the Central Transdanubian region and 7 companies were based in Northern Hungary. For the

regional location of Japanese companies with reference to the capital and the countryside, current data indicates a nearly half-to-half distribution. By 2018, the presence of producer companies in rural areas increased. The spatial dispersion and the companies appearing in the country's eastern part are related to the way they invest. As Masahide Honda, CEO of JETRO explained, while Japanese companies have typically invested in greenfield investments, more recently Japanese companies are making acquisitions too. Where there is a Hungarian firm, they get hold of it, acquire it (e.g. GS Yuasa, NIDEC). As the significant increase in the number of manufacturing companies can only be partly attributed to greenfield investment, in most cases, the parent company becomes a Japanese asset as a result of international acquisitions, such as Dreher – Asahi (World Economy, July 07, 2017).

Table 3

Distribution of Japanese companies by region in 2014

Manufacturers		Companies	
Central Hungary	95	Central Transdanubia	21
Central Transdanubia	27	Central Hungary	9
Northern Hungary	7	Northern Hungary	7
Northern Great Plain	5	Northern Great Plain	4
Southern Great Plain	4	Southern Great Plain	3
Western Transdanubia	3	Western Transdanubia	2
Southern Transdanubia	0	Southern Transdanubia	0

Source: JETRO Budapest, 2018.

Table 4

Number of companies, capital/countryside ratio

	2014	2015	2016	2017	2018
Budapest	74	77	78	77	83
Countryside	73	70	73	79	77
Total	147	147	151	156	160

Source: JETRO Budapest, 2018.

3.2. New and Expanding Companies in 2017-2018

Recently, news about the expansion of Japanese companies, innovations, factory formations and openings of new units has come almost continuously. In the summer of 2017, Nissin Foods' new ultramodern factory was inaugurated in Kecskemét. The reason for the expansion was that there was a steadily increasing demand for the company's products: instant noodles. The Kecskemét factory was built in the framework of a

33 million EUR investment and became the European center for the Japanese company. In March 2018, the synthetic rubber factory of JSR Mol Synthetic Rubber Zrt. was opened in Tiszaújváros, which together with its raw material factory cost about HUF 130 billion. The Hungarians and the Japanese agreed to establish the joint venture in 2013, then, at the end of 2015, they started the implementation. The government supported the investment with a tax advantage (Biró, 2018). At the end of March, 2018, the foundation ceremony of the factory of GS Yuasa Magyarország Kft was in Miskolc.⁶ In April, the Japanese Zoltek (subsidiary of Toray Industries, Inc.) announced that it will expand its manufacturing facilities for its factory in Nyergesújfalu, and will make another investment to this end. To the HUF 30.8 billion investment, the government contributed with HUF 8.1 billion. The company created 357 new jobs⁷. There were two enlargements in September, 2018. One of them is the Bridgestone in Tatabánya, which has launched a new investment of HUF 9.2 billion, for which it received a non-reimbursable subsidy of HUF 826 million from the Hungarian government. The world's largest company manufacturing tires and rubber products employs 1,100 people in its factory in Tatabánya, where 400 new employees were recruited only in 2017, and 100 additional jobs were created with the new 2018 investment, which means a new supplier capacity for the automotive industry⁸. The other autumn event was the opening ceremony of the new logistics hall of NIDEC GPM Hungary Kft on the 28th of September in the company's factory at Bercel. The investment of the Japanese-owned plant manufacturing auto parts was made up of HUF 15 billion. There are currently 240 people in Bercel's NIDEC, but they will need an additional 160-170 staff for developments in the years to come (EMIS, 2018). Having looked at the Japanese companies' new investments in Hungary, and the tendency of its in-house expansion, questions might arise concerning its reasons. According to Masahide Honda, Director of JETRO Budapest, one of the reasons for this is definitely the preferential treatment. The other motive is the strategic partnership, but it is for the already established companies. As the director said; "Support is important". In addition, unemployment in Hungary is relatively high in many parts of the country compared to the Czech Republic. That is probably why BMW is settled in Debrecen. It is quite interesting that the support given to companies can be granted according to the EU rules, i.e. if it is not an underdeveloped area, it is difficult to get EU financial support. So, the Czechs

⁶ Events—March 28, 2018—on the website of the Embassy of Japan in Hungary. [online] Available form: https://www.hu.emb-japan.go.jp/itpr_hu/embassy_topics.html

⁷ News on the website of the Ministry of Foreign Affairs and Trade. [online] Available form: <http://www.kormany.hu/hu/kulgaszdasagi-es-kulugyminiszterium/hirek/folytatni-kell-a-magyar-gazdasagi-sikereket>

⁸ Events—September 28, 2018—on the website of the Embassy of Japan in Hungary. [online] Available form: https://www.hu.emb-japan.go.jp/itpr_hu/embassy_topics.html

now find it difficult to get it at the whole country level. However, Hungary's industrial development is irregular. In other words, although Hungary is geographically far away from Germany and the German market, and Eastern Hungary is even further away, as well as there is the issue of how they can connect to the supply chain. Capital is now, thanks to the support and the presence of the workforce, gradually entering places it has not before. An example is the GS Yuasa factory in Miskolc or the NIDEC manufacturing Mercedes-Benz components in Nógrád County, Bercel.

4. Communication Features in Japanese Business and Corporate Culture

4.1. The Basis of Communication in Japanese Culture

After the change of regime, Japanese companies did not particularly demand Japanese-speaking staff, they were satisfied with the English language (at that time the number of Japanese-speaking people was relatively low). The Japanese leaders were not fond of that the subordinate understood what the leaders were talking about. However, from the turn of the millennium, as the number of Japanese companies grew, Japanese-Hungarian joint work has repeatedly been subject to recurring misunderstandings during work sessions and in communication. The intensification of the problems was accompanied by the redefinition of needs. They recognised the need for having not only English but Japanese-speaking staff, especially in middle and senior management positions, who understood Japanese thinking, corporate culture, and are familiar with Asian management style. The firms initiated intercultural communication trainings, and Japanese language trainings were launched at the factories. Therefore, in 2007, JETRO published a 36-page brochure on 'Communication with Japanese in Business', which explains that "the more a foreigner experiences business with Japanese, the more he/she understands the difficulties in communication ..." (JETRO, 2007, p. 4). They recommend non-Japanese employees of Japanese companies to get to know the basics of Japanese culture, communication and business communication in order to work efficiently.

4.1.1. Community Consciousness, Community Commitment

The communication of the Japanese is determined by the interpersonal relationships, which always works everywhere in the community (Kitade, 1996, p. 39). "Everyone belongs to a certain group, community" (Hidasi, 1998, p. 140). One of Japan's most important values is its commitment to their community. Instead of individual interests, individual ambitions, responsibility for the community, identification with the

community is essential. Consequently, the basis of Japanese verbal and non-verbal behavior is determined by community consciousness (Sato, 2014, p. 70). This is realized in the Japanese behavior by the pursuit of harmony and social order, adaptation, behavior in accordance with the *honne* and *tatemae*, respect for the hierarchy, and *uchi-soto* communication.

The pursuit of harmony and social order, as well as the ability to adapt, is the result of Japan's geographical and natural conditions. Harmonious coexistence with nature for the Japanese is a way of life and philosophy. Instead of activity, people chose passivity, and instead of conquering and manipulating nature they chose to adapt to it. The result of the pursuit of harmony is that the Japanese do not trust language, but prefer understanding without words, empathy. Instead of decisiveness, they incline towards blurring everything (Sato, 2014, p. 73). In order to maintain social harmony, the Japanese do not always say what they think. This means that there is a difference between the opinions given best suited to certain situations that one displays in public (*tatemae* 建前) and real feelings, personal opinions (*honne* 本音). The Japanese speaker wants to create harmony in the community by displaying *tatemae*, so that communication goes smoothly without any conflict. Since expressing honest opinion may possibly lead someone to an unpleasant situation, i.e. even to a loss of face, so to avoid this, only the *tatemae*, the opinion acceptable for everyone, is said. People raised in Christian cultures often consider *tatemae* as dishonesty, insincerity, and sometimes slyness. For Japanese people, it is an important tool for maintaining harmony between the individual and the community (Hidasi, 2012, pp. 6–7).

Respecting and preserving hierarchical relationships in Japanese society is a legacy of Confucianism (Hidasi, 1998, p. 139). This is reflected in the respect and appreciation of seniors, more experienced, elder or formerly entrants at school and at the workplace. The hierarchical social relations in Japanese language are expressed in the form of honorific language (*keigo*) (Shimamori, 2007, p. 44). The use of the honorific language in communication is realized through the system of *uchi-soto* ウチ・ソト. This system describes the structure of the world, dividing it into an outer and inner world. The in-group (*uchi*) consists of the *self* and the closest ones to me, my family, the narrowest circle of friends. The outer-groups (*soto*) consists of all those with whom the *self* has a continuous or occasional relationship (teacher, shop assistant, doctor, client, workplace supervisor). Within the *uchi* circle, the world of the *self* is not a closed world as it is in the West, but "the *self* dissolves, unites with the close family members, friends, colleagues, who are close and are in a confidential relationship with it. Compared to this, there is a strong boundary between the *soto* and the *uchi* circles, and it is very difficult to move from the *soto* group to the *uchi* group" (Székács, 2003, p.

113). The Japanese mentality is influenced by relative categories rather than absolute. In Japan, the situation or context—*when, where, to whom, why, for what purpose*—depends on how someone behaves with others, how one communicates in terms of *uchi-soto*. Relative communication causes the *self* to communicate with its boss in a workplace situation in a *soto* relation, while communicating with the same boss in the presence of a guest, the boss is transferred to the *uchi* category (Sato, 2014, p. 78).

4.1.2. The Importance of Form

The other most important concept of Japanese culture is the form (*kata* 型) (Minamoto, 1993; Hidasi, 1998; Székács, 2009). In Japanese thinking, content is approached from the form. Ranging from the art, through the moral and conceptions, the everyday life of the Japanese is permeated by the respect for form. The form is understood both physically and spiritually, in physical terms it is the appearance itself. This sort of perception of form is one of the most important elements of Japanese culture and communication, and as such, it can often be a source of conflict when dealing with foreigners. The form-centered Japanese culture was first inspected by Europe alongside the appearance of martial arts. From judo to karate, they all begin their training with form exercises. Form exercises, the *katas* are practicing discipline and approach the content from the form. First one needs to know the *kata* well and precisely, and when the formal framework is ready to accommodate the content, they fill it with content. The basic structure of the training also models the traditional Far East corporate system of relations. The complexity of the form is of great importance in all areas of business. There is a much greater emphasis on external expectations of appearance, behavior, and compliance with external rules of communication than there is in the case of Western companies. In many cases, compliance with formal requirements is considered more important than the content of a given task. If we do not understand the role of the form, we cannot understand why the Japanese insist on keeping the habitual order, the accustomed form of written material, and the physical presentation of examples instead of oral instruction. We cannot understand why a Japanese HR manager, in a job interview with a Japanese company, judges the formal “errors” much more rigorously than his Hungarian colleague, who does not consider the inaccuracies and differences in dressing, gestures, or expression of emotions to be faults via his/her own cultural glasses if the candidate has a strong quality of content. Especially not so serious as to give up on the candidate. For the Japanese party, however, the formal mistake is unacceptable, rather it chooses a less qualitative employee (Székács, 2009). It is well known that Japanese wrap gifts beautifully and they also expect it in return, but it is hard to understand in business life if Japanese customers return products (even a semiconductor) due to aesthetic

defects in packaging. Indeed, the Japanese believe that the aesthetic error refers to the failure of the process and ultimately indicates that there might be a problem with the quality of the product (Sato, 2014, p. 79). The perception of the content and the form differs in the approach of the two cultures. This sort of form-centeredness is most clearly manifested in the Japanese culture.

4.1.3. High Context Culture

According to E.T. Hall human communication is determined by the degree of context. Japanese culture belongs to the high-context cultures. In high context interaction, the information is already pre-programmed in the message receiver and in the environment, and therefore the transmitted message contains only minimal information (Hall, 1989, p. 101). This means that in Japanese culture, the information is not necessarily in the linguistic message, but it may be in the situation or in the environment too. Verbal communication is less favored by the Japanese, they read rather from the physical context, from human relationships, or from the signs of the environment. In contrast, in low-context cultures, most of the information is clearly in the linguistic message, so people living there prefer verbal communication and encode the information into a clear language. People in high culture—including the Japanese—feel that those who communicate with them understand this non-linguistic code in the same way as they do, read from the unspoken message, and thus communicate with the people from low-context cultures succinctly. The Japanese feature resulting from high-context communication is the *sasshi* 察し (guess) and the *enryo* 遠慮 (reserved in manner, refrain). Since they cannot rely alone on words and linguistic expressions in the interpretation of the text, they must also interpret the context at the same time. By the holistic approach they deduce the content from the text. In Japanese communication, automatically, always and permanently *sasshi* operation occurs during the interpretation. Conversely, it is also expected from the other party to interpret, deduce the information out of what has been said or has not even been mentioned. According to Ishii et al. (2002), the Japanese use the *sasshi* when receiving the message, while *enryo* is used when releasing the message, i.e. the speaker uses a refraining strategy and keeps himself/herself in the background (Ibid., p. 127). For this kind of communication to work well, especially in a business environment, every participant needs to have high empathy. It helps the understanding when both parties are familiar with the communication strategies.

4.2. Basic Features of Japanese Verbal and Non-Verbal Communication

As a result of Confucianism, the Japanese society has a hierarchical and vertical structure, a so-called *tate shakai* タテ社会 (vertical society) (Nakane, 1973), in which linguistic and non-linguistic communication is based on age, gender and social rank, position, status, and their complicated layering. The Japanese language reflects the cultural reality: they expect respect for superiors, older people and for men. In this community-oriented society, people establish relations and communicate in accordance with the *uchi-soto* system, along with the constant control of the distance between interpersonal relations. This is reflected in the very complicated honorific language system. With the honorific language, the Japanese openly express respect for seniors, while at the same time the speaker himself/herself speaks about himself/herself and the members of his/her inner community using modest, humble language expressions. It is not possible to communicate in Japanese without using the honorific language. In the Hungarian language, we choose between informal and formal addressing (two types), so we also use the personal pronouns accordingly (*you* as informal, or *you* as formal pronoun). In contrast, there are no personal suffixes in Japanese language, so “who speaks to whom, and in what relation the speakers are with each other, and with whom (or what) they are talking about” is expressed through the honorific language (Székács, 2003, p. 111). In addition, clarity, direct wording, and direct rejection are avoided in communication in order to maintain harmony. They pursue using linguistic and non-linguistic techniques to avoid loss of face. The linguistic communication of the Japanese people living in closed communities was characterized by obscure wording, hiding information and hiatus phrasing. They didn't like the frontal collision in communication. The intention of avoiding an open debate and conflict is also reflected in the language phraseology. It is worth refraining from explicit direct expressions and giving the possibility of ambiguous, uncertain wording. This ambiguous, vague style is also used by businessmen to negotiate, often leaving western people feeling insecure. One of the roles of ambiguity is to prevent direct denial, so that the speaker does not have to say “no”. Negative questions also serve the same purpose and—with its suggestive bearings—it makes it possible for the other party to guess that the answer would be negative.

4.2.1. Verbal Feedback: *aizuchi* 相槌

In Japanese culture, eye contact should be avoided because direct exposure generates a challenge and aggressiveness. Vivid, dynamic gestures, definite mimics, eye contact are avoided, instead they react with a continuous smile and frequent verbal feedback. The continuous smile covers the real emotions and thus an unexpected

emotional wave destroying the harmony between the speakers can be avoided. Verbal feedback replaces eye contact. This verbal feedback has several variations, for example *sō desu ka* ('I see'), *naruhodo* ('yeah, I got it'), *sō sō* ('yeah'), *hai* ('yes'), *un* ('yeah') etc. Because of the lack of eye contact in the Japanese language, two and a half times more feedback is used than in English (Hidasi, 1998, p. 143). If the feedback is *hai* ('yes'), *hai, hai* ('yes-yes'), it often causes misunderstanding, because it does not mean consensus or consent, but it only means that 'I do listen, I hear what has been said'. The Japanese often use this typical Japanese feedback when communicating in English, and from time to time they respond by saying 'yes', and it has misled many from the West (JETRO, 2007, p. 23).

4.2.2. The Meaning and Significance of Silence

In Japanese culture, arts, architecture and interpersonal relationships, there is also a great deal of silence. Silence, which in painting and music gives meaning to the filled surface, space—hiatus in agriculture—can mean thinking, deepening in the subject, gathering thoughts. Traditionally it was considered that educated people do not talk much, do not chatter. Silence for the Japanese does not mean "embarrassing silence" as for Hungarians, but it has a function. Hungarians get embarrassed if the Japanese party fall silent at a meeting or negotiation, and remains silent for a long time, especially if it closes its eyes. Closing the eyes means concentration, it is the sign of attention, there is no offensive intent. Considering that the long silence between the continuous speech gives the impression for Western people that something is not going well,—making them feel uncomfortable—they try to avoid it and look for words to break the silence. As Hidasi puts it (1988); "a foreigner who feels uncomfortable or embarrassed often makes the mistake of trying to resolve the silence with joking, or even worse, with instancy. A more efficient approach is patient waiting, viz. these silences have function" (Ibid., p. 143).

4.3. Specific Features of Written and Verbal Communication in Japanese Corporate Culture

Naturally, the basic features of Japanese communication are also valid in business. The Japanese prefer written communication to verbal communication (Condon, 1980, p. 214). Many written materials are prepared in advance for the business meeting on the agenda and background information, then a detailed report and reminder are made afterwards. Visual sharing of messages and information is highly appreciated (tables, charts, colorful images, notes etc. for presentations). Presentations, formal

speeches are often done by reading the written material. In contrast, personal and verbal communication are considered important in Hungary. They do not read lectures and speeches but say them by heart. Written documents are just personal reminders. The Hungarians don't like writing a note, an agenda, or a record of negotiations. If they do not explicitly ask for a note or a written report from the Hungarian workers, they do not voluntarily prepare them. The Hungarians would like to handle everything by oral communication.

4.3.1. Decision-Making and the Path Leading to It

The need for the harmonization of opinions *awase* 合わせ (coordination) appears both in the daily life of the Japanese and in the business negotiations and decision-making process. If a task is given, it is presented to all concerned before implementation and they ask for approval from everyone. This is necessary to avoid an open frontal collision of opinions. In order to ensure a smooth and advantageous process of negotiation, they prepare for negotiations with familiarizing the stakeholders with the plan—usually in person, in an unofficial place—and bring the participants to a consensus in advance by persuasion or compromise. Thus, the decision-making process in the negotiations is no longer taking place through open debate, but occurs quickly, on the basis of a preliminary discussions. This strategy of early conciliation is called *nemawashi* in Japanese. In companies, this process is recorded in writing, by circulating the subject to be discussed with stakeholders, and requesting the consent and approval of each person concerned, which they confirm with their stamps. This process is called *ringi* 稟議 (JETRO, 2007, pp. 10-11). This process requires quite some time and energy, but also ensures that there will not be any possible arising tension due to confrontation between the parties. Thus, the decision-making meeting itself proceeds smoothly and efficiently, which may have a positive effect on future working relations (Hidasi – Sato – Székács, 2015). Employees of Japanese companies in Hungary also get familiar with *nemawashi* and *ringi* immediately after entering their job.

4.3.2. Japanese Negotiation Technique, Flow of Information

During negotiations, the pursuit of preserving community harmony and non-violent behavior is also reflected in the particular reasoning, the threads of logic of Japanese and in their circular, spiral approach of arguments and facts (Hidasi, 1999, p. 123). While in the Western-style of communication linear reasoning, exact and precise wording, and information transfer is a basic requirement, the Japanese return to all questions over and over again, they drip-feed information and word vaguely. During negotiations, they approach a topic from different perspectives, from multiple sides,

and return to the topic over and over again. Questions are not solved step by step, but all questions are clarified and resolved at the end of the negotiation in a holistic manner. Businesspeople with less context-sensitive communication coming from a task-oriented culture are mainly focused on “must know” information, which is necessary information for the completion of the given task. The Japanese, on the other hand, collect “good to know”-type of information. Questions and requests are not always about a specific thing, but simply are concerned with the source of the information they require. For the Japanese, the personal information of the negotiating partner (where he/she comes from, where he/she graduated, the corporate system, data of the company, etc.) is an important tool of negotiation for assessing the reliability of the partner and calculating its actions (Hill et al., 1994, pp. 214-215). The western party expects brief, summary documentation, information, and only gets fragments, while the Japanese side wants to get to the point with the gradual introduction of background information.

4.3.3. The Power Distance in the Workplace

Due to the hierarchical and community orientated character of the Japanese society, work attachment is more important than family attachment and the community is dominated by a paternalistic spirit (Hidasi, 1998, p. 140). This spirit also manifests itself in the behavior of the bosses at work. At the workplace, the senior person can speak grumpily and roughly with the lower rank (Akasaka, 1996, p. 93). Hungarians working at Japanese companies often complain that Japanese superiors talk roughly with them. On the one hand, this is because they feel their role in the hierarchy, on the other hand, because they have an attitude towards the subordinates as they were the head of the family, so they feel they can speak rougher as well. The subordinate can be scolded by his boss before the others, and it is appropriate to apologize immediately. This does not deteriorate the relationship between the boss and the subordinate, because scolding is not aimed at the person, but at the act itself. After scolding, the boss (like a father), as if nothing had happened, returns to his previous behavior. In Japanese companies (schools), the relation of *sempai* 先輩 – *kōhai* 後輩 also determines behavior and communication. *Sempai* at school is someone in a senior class, at work is a colleague entering the workplace earlier than us, in martial arts is an older, more experienced partner; *kōhai* is someone in a lower class, colleague (younger) entering the workplace before us, a beginner trainee. In this system, *kōhai* needs to have absolute respect for *sempai*. This system of relations can be maintained in business, it is to refer to and build on it (Székács, 2009). The newcomer, even if he/she is older, higher educated or better qualified, is treated at a lower *kōhai* level until he/she earns the respect and trust. In Hungary, for all that, respect is not based on the position held in

the hierarchy, but on the basis of expertise, experience and personality. The relationship between the boss and his or her subordinate can be distant, but at the same time friendly in personal contacts. Hungarians, regardless of their rank and power, consider public criticism to be a loss of face and an attack on the person (Sato, 2014, pp. 96-97).

5. Labor Situation, Expected Skills, Knowledge

Traditionally, Japanese companies attach a key role to human resource management. If a company is established in a region,—besides political and social stability, the existence of investment incentives, the availability of infrastructure and suppliers—the presence of qualified and well-trained workforce are essential for the company's competitiveness. In the case of manufacturing companies, the low labor cost and the level of wages play a significant role in the selection of the country to invest in (Balázs, 2002). During the period of the introduction of Japanese companies in Hungary after the change of regime, the loss of position in the region against Czechs and Poles—besides the geographical location—was caused by the lack of adequate workforce. Since 2002, several surveys and studies deal with the labor situation of Japanese companies in Hungary, and the perception of the Hungarian workforce (Balázs, 2002; Bassa, 2006; Székács – Sato, 2008; JETRO, 2017). During the initial investment period (90s), it has caused difficulties that the Hungarian workers took property home that belonged to the company, or did not keep their workplace clean⁹, did not comply with the maintenance rules. This situation has improved a lot by the turn of the millennium, but it turned out that many of the qualities that are positive in Hungarian culture (someone openly telling his/her opinion, uses creativity and chooses individual solutions, changes jobs in order to reach higher and higher positions) were found to be untenable in Japanese business culture (Balázs, 2002, pp. 95-96). A publication was prepared in order to introduce Japanese business communication, to deal with misunderstandings and difficulties (JETRO, 2007), and in larger companies, intercultural communication trainings were organized with the involvement of experts. Sato records that in 2005, during a training session for Hungarian and Japanese executives and middle managers at a Japanese company, the Japanese instructor asked the Japanese participants to write down what positives (and then negatives) they could say about their Hungarian colleagues, and the Hungarian instructor asked the same thing from the Hungarians with reference to the Japanese.

⁹ Cleanliness of the workplace and orderly working conditions are one of the most basic rules of Japanese corporate management. The 5 S rule (*Seiri* 整理 = order, *Seiton* 整頓 = tidying-up, *Seisō* 清掃 = cleaning, *Seiketsu* 清潔 = cleanliness, *Shitsuke* 躾 = discipline, education for adherence to the rules) was the first that the Japanese employers tried to achieve with the Hungarian workers.

The positive features of the Hungarian colleagues given by the Japanese: friendly, obedient, helpful, Japanese-friendly. The Hungarians considered the Japanese to be disciplined, thorough and the working colleagues are helpful. The negative ones were as follows: the Japanese said that Hungarian workers don't apologize but seek excuses too often. They do not take notes, they have no sense of responsibility, they have no sense of community and do not tolerate criticism well. The Hungarians, however, considered the Japanese colleagues to be distrustful, they feel that the locals are treated as inferior, and have objections to the lack of accurate information (Sato, 2014, pp. 65-68). According to Bassa's questionnaire survey, the opinion of Japanese managers about Hungarian workers is that their learning abilities and their openness to training are stronger than their work intensity and work ability. Furthermore, their loyalty and discipline are not considered enough, and they criticize the punctuality of Hungarian employees (Bassa, 2006). The criticism, the attributes marked as negative, can in both cases be explained by the difference between the Hungarian-Japanese way of thinking, culture and the style of communication. This means that conflicts can be resolved and managed through education and trainings can be mutually sensitizing.

According to the data of the KSH (Hungarian Central Statistical Office), the unemployment rate continuously increased after 2003, and in 2010 it reached a peak of 11.3 percent. Since then, there has been a steady decline, with 4, 2 percent in 2017 and 3.9 percent in 2018¹⁰. From a labor market point of view, this means that labor shortages are to be continuously expected. This is confirmed by the KSH 2017 report, according to which the number of vacancies waiting to be filled has been increasing steadily since 2012 (KSH, 2018, p. 41). In terms of Japanese companies, the JETRO 2017 survey shows the same trend. The survey was conducted at Japanese companies based in Europe to find out what challenges in business management they face, and what is directly affecting their performance (JETRO, 2017). From this it turns out that since 2014, the biggest challenge for the Japanese companies that have submitted responses has been to keep the workforce. Over the past two years, the second biggest challenge has been the rise in labor costs. The survey also highlights that about half of the Japanese companies responding strive to strengthen the professional development of engineers and technicians and increase their number (JETRO, 2017). It is also interesting because Bassa writes already in 2007 that Japanese companies in Hungary find it more and more difficult to track down skilled workers, technicians, and middle managers (Bassa, 2007, p. 59). On the one hand, the problem of retaining workforce results from the differences in loyalty approach (the individual

¹⁰ Unemployment Rates by the Hungarian Central Statistical Office. [online] Available form: http://www.ksh.hu/thm/2/indi2_3_2.html

career opportunity is more important for the Hungarians than loyalty to the company), and on the other hand, if Hungarians feel they are unable to move vertically or their work is not recognized, they look for another job. According to a survey conducted by Randstad Hungary in 2015, the second major reason for changing jobs in Hungary is that "the company does not recognize their work" and that "career growth is impossible" (JETRO, 2016, p. 33). The author of the JETRO report found that Hungarians do not usually express their dissatisfaction with their superiors, they just change jobs. They avoid open debate and rather complain in the background, then shift to a company offering better working conditions and wages. This phenomenon was also observed by a Japanese management consulting firm (MJS, 2017). They reported that young people left one Japanese company one after the other, because the leaders roughly scolded them during negotiations, and did not accurately account overtime. The young people did not report these problems to the company's management, rather they quit. The consulting company suggested that corporate executives use an anonymous 'idea box' (*meiyasu-bako* 目安箱) to find out the worker's opinion. The JETRO report reveals that similar solutions are applied in Hungary to improve working conditions. Such a solution is the disposition of the above-mentioned idea box (especially when ideas are rewarded), or the solution where the personnel department is located next to the production section, so that the employees can easily share their complaints. There were also companies trying to entice well-trained workers leaving the firm back by offering that they could return any time. As a result, 1 out of 5 employees leaving the firm, returned (JETRO, 2016, p. 33). An interesting example of efforts to maintain the workforce can be detected at Dunaújváros. There are several companies in the area, so in order to acquire and retain a well-trained workforce, besides general social benefits, events are organized to meet the needs of employees, such as Santa Claus celebrations, events with Easter gifts in the spring or with ice cream in the summer (JETRO, 2016, p. 36). These efforts to keep the workforce reveal the change under way in the labor market. In 2007, the JETRO publication of "Communication with Japanese in Business" aimed at integrating Hungarian workforce, briefing them into the Japanese company features and cultural knowledge. The 2016 report prepared by JETRO's European office not only sets out expectations concerning the employees, but they also want to understand what the well-trained workforce expects from its company (JETRO, 2016). As Masahide Honda, CEO of JETRO, said, many Japanese middle and senior executives in Japanese companies have foreign experience, foreign language skills, so communication with them is easier, but there are still many coming from remote areas of Japan who don't speak English well and barely have experience with foreigners. Consequently, if the number of seconded employees from Japan continues to be over one percent of Hungarian workers, intercultural communication knowledge (e.g. Japanese community orientation, the importance of hierarchy, the

importance of adherence to formal rules, context-sensitive communication, deviation of business habits in decision-making and in information demand and in the way it is handed over) and the awareness of expectations from both sides will be still mutually needed.

6. Changes in Business Culture and Expectations, and its Educational Implications

By the turn of the millennium, there had been numerous, ever-increasing changes in Japanese society as a consequence of globalization. Mobility (businesspeople, tourists, students, mixed marriages) has intensified, the flow of information has changed with the help of the Internet, and the amount of information available at the same time has increased. The individualism of the Western culture has emerged in the community-conscious Japan with educational problems and integration difficulties of young people. Only 16 percent of the Japanese youth acknowledged the lifestyle of their parents as a pattern to follow. This fact, from the point of view of employment, means that the employee career dedicated to work is no longer an attractive option for the majority of the new generation (Hidasi – Varga, 2014). In addition, the transformed, self-centered communication style full of young people that is full off abbreviations is difficult to understand for the elderly and is not considered polite enough. Thus, the employment of young people who are hard-to-do with formal style is not easy either. The question arises how these changes affect Hungarians in domestic Japanese companies and not only those with Japanese language skills. For the time being, the seconded middle, but particularly the top management in Japanese firms in Hungary are those of the older age group, so they expect traditional communication and they represent traditional Japanese values. Especially when they come from the countryside and go abroad for the first time. Concerning the seconded workers coming to Hungary, Masahide Honda, CEO of JETRO said that some of them are abroad for the first time and they are from rural areas since the assembly factories in Japan are mostly in the countryside. He explains about the changes that “the environment is also different than it used to be, and the way of thinking of today’s twenty-year-olds is quite different than it was before.” The practical impact of changes in social and communication habits in Japan will also affect the daily business, (operating), and the preparatory training of recruits at Japanese companies. Job interview training (videos) are available on the Internet (see: job interview clinic: youtube¹¹). These

¹¹ See e.g.: [online] Available form: <https://www.youtube.com/watch?v=QiiYX0A4Lk0>; <https://www.youtube.com/watch?v=LcWu0PZRgvo>; <https://www.youtube.com/watch?v=za0q8ff65a0>

changes are also heavily impacting the courses of BSS's Japanese business language and business culture, as a significant proportion of graduates are employed in such positions in Japanese companies where they are in contact with Japanese executives and middle managers. BBS has been training professionals dealing with economic, commercial, and international relations since 1984 who, in addition to their English (and other) language skills, will also learn Japanese business language during their studies. Since 2004, while learning the language and business culture, students have had the opportunity to attend a two semester-long Far Eastern Intercultural Management course. This is currently being organized by the Oriental Business and Innovation Center (OBIC) and it is extending students' knowledge of Japan, as well as of other countries in the region (China, Korea). During the course, students attend lectures on the relationship between the region and Hungary, the countries' history, the etiquette and protocol expectations, and the characteristics of corporate management. However, theoretical studies (lectures, professional language lessons) are not enough to acquire the socio-cultural competence prevalent in the region, but there is a need for continuous practice. We have attained the acquirement of practice by introducing interactive forms of training beyond the lectures. We take the students to a factory visit, we organize a discussion forum by inviting Far Eastern communication professionals, Japanese company executives, and former students pursuing a professional career in Japanese areas. We would like to present the topic of Hungarian-Japanese business communication in a way that we collide the perspective of different generations. For extra-curricular activities, we use the international cooperation between BBS and Japanese higher education institutions (Székács, 2008). Every year, we welcome groups of Japanese students, who do collaborative research on a different subject each year with Hungarian students studying Japanese. Joint research is also important, because a number of communication difficulties can arise, which the present teachers can resolve and they can provide explanations for. Teacher consultation assistance will no longer be available at the workplace, so the student can make mistakes without "punishment". While working, we also experience the intensification of the *senpai-kōhai* relationship between the students. The situations in which Hungarian students find themselves—which is often a situation that theoretically they already known and have already practiced for (e.g. expressing a counter-opinion)—appear to be a new phenomenon when experienced in practice. However, these situations pre-model workplace collaboration and are therefore very useful. Previously, we conducted a survey among our senior students employed in leading positions at Japanese and Korean companies about what benefits they experienced during work processes or in corporate governance as an employee having knowledge in Eastern corporate culture. The answer was that employees with such qualifications could play a major role especially in the mediation between the two cultures. They must

play a kind of bridging role between the lower ranked Hungarian employees and the Japanese and Korean management. Colleagues with such pre-qualifications undoubtedly promote cooperation (Székács – Sato, 2008, p. 117). We asked Aikawa, economic director (our former student) in 2007 what aspects she is guided by when she wants to hire someone to the management for a long-term position, and she answered that the colleague should be flexible enough, and available at any time in the often occurring "special situations" at Asian companies. From this point of view, it is very useful if the candidate already has knowledge of the Far East style of work, and it is especially advantageous if the person has spent some time in the given culture. Our former students, who have graduated at our institution and are employed in higher positions at Japanese companies, are happy to hire our students learning Japanese because they know they are aware of the basic Hungarian-Japanese business communication and cultural differences (hierarchy, form, community, loyalty), and they have the regional sensitivity. Several generations of former BBS students are working at the Alpine Electronics Inc., and Sanoh Industrial Co., Ltd. (Sanoh Magyar Kft.) and are also pleased to welcome them for internships.

7. Conclusion

In our study, we reviewed the situation of Japanese companies in Hungary from the beginning to the present, the requirements and expectations for the labor force and the characteristics of Japanese business communication, in order to find the answer, whether we can do anything as a teacher of Japanese business language and communication in order to avoid difficulties at work. Our intent was to find out whether conflicts at the workplace could be solved by the understanding of the Japanese way of thinking and mentality and would the Japanese companies benefit from such knowledge. We were curious as to whether this knowledge could be taught and whether the labor situation has transformed with the change of the Japanese social background, or whether the effect of the generational change would occur. We believe that we have a huge responsibility as teachers of Japanese business language and communication, because the knowledge can be taught and can be passed on, especially if it has practical elements (factory visit, student exchanges, discussion forums). An employee with such knowledge is very useful to a company when it comes to a position where there is Hungarian-Japanese contact, or when simply the Japanese working style does not need to be taught separately. From the students' perspective, the popularity of the Japanese business language at BBS, and the Far Eastern intercultural management subjects since 2004 has been sustained and continues helping students in their employment. The same is true for the demand of Japanese

companies for intercultural communication training on the corporate side. Workplace expectations 10 years ago—as we saw in JETRO’s 2007 publication on communication differences—were about what the workforce should know and should learn about the Japanese corporate culture in order to make joint work easier. Meanwhile, by 2016, the JETRO European report stated that in Germany and Eastern European countries, we were no longer living in a time when the company chose its people, but when the employee chose their company (JETRO, 2016, p. 2). The change in the trend was also signaled by the warning to Japanese companies, according to which the main goal was not only to acquire a company employee, but rather to retain them. Therefore, JETRO recommended that, in order to acquire and retain a well-trained workforce, firms should try to understand the local workforce’s expectations towards the Japanese company and try to incorporate European business practices as well (JETRO, 2016, p. 3). Generational differences are clearly visible both in Japan and Hungary, and there is less and less loyalty even in the young Japanese, and they tend to change jobs more and more easily. As Mr. Honda said, many people quit, and work discipline has loosened too. Japanese companies in Hungary are also trying to apply the measures utilized in Japan to addressing the retention of young people. In the beginning of 2018, JETRO Budapest Office organized a seminar for domestic Japanese companies’ HR on the challenge of employing the Z generation workforce and addressing the problem. At the event, Hungarian sociologists reported on the job-hopping tendencies of the young workforce, how to manage it, and the results of the research. Although no official survey has been conducted on the fluctuation rate of Japanese companies in Hungary, the fact that a seminar was organized on the topic indicates the importance of the issue. The other tendency is that in recent years Japanese agencies in Hungary have been looking for Japanese language teaching universities on a regular basis to intermediate students at Japanese firms, who speak Japanese and are familiar with the Japanese culture. On the recommendation of the JETRO Budapest Office, the Association of Japanese Entrepreneurs in Hungary (*Shōkōkai*) has been linking information on BBS and KRE¹² Japanese-language teaching institutions on its website since 2016. Finally, we summarize the recent changes through a specific example, with the help of a senior manager of a Hungarian Japanese company, a former student. For the question on what kind of changes he sees from 2008 to the present day in the development of his company’s position in Hungary with the changes of the investment and political environment, the following answer was given. In 2015, the company signed a strategic partnership agreement with the Hungarian government, however, given the size of the company (corporation) and its geographical location (Central Hungary Region), it is not possible to use

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EU and domestic subsidies for the continuation of the current activity (assembly). Nevertheless, the National Investment Promotion Agency (HIPA) supports the company to the best of its ability, organizes trainings for their Hungarian suppliers based on the company's needs. It helps its Hungarian suppliers in their investments, in introducing new technologies and in expanding their capacity through its tenders. Thanks to the expansion of the automotive industry, the company's turnover has been steadily increasing since 2011. Regarding the question on employees, he said that labor shortages have a significant impact on the company, especially in light of the fact that since 2014 they need about 70 percent more workers. The number of job seekers is far below the national average in the region, what is more companies are bidding on each other to meet their needs in manpower. Neither can they recruit workers from ethnic Hungarian areas of neighboring countries because they cannot provide the benefits which would make working away from home worthwhile. Most recently, Ukraine and Serbia are recruiting from non-Hungarian areas, even recruiting non-Hungarian speaker colleagues. When asked about the recruitment methods, we learned that direct workers are primarily collected through staffing agencies¹³. Borrowed staff will be transferred to their own work force after half a year. They are even directly recruiting the physical work force, but their number is insignificant. They reach out to them through advertisements, as well as in the form of the so-called roadshows through which they get to further parts of the country. The quality and reliability of physical workers has deteriorated significantly. Intermediaries are used to recruit the indirect workforce, but they also receive applications through direct advertising. They participate in job fairs, use (moderate) social media, as well as rewarding recommendations of acquaintances for each position. Looking ahead to the long-term, they take part in a dual degree program, but they still experience drop-outs. The answer to the question of whether the number of Japanese people working for companies has changed, was negative. The permanent staff is on a constant level (fluctuation around 1-2 people), the number of those being on shorter or longer missions is now high, because many new products have been introduced and engineers are staying for the preparation of production. In senior management, the managing director, the senior financial manager, and a senior manager of one of the production areas is Japanese. The others are in expert, advisory positions. We asked what qualifications companies look for and for what positions, and the answer was that the biggest shortages are of engineers and technicians, and it is also difficult to find semi-skilled workers. The senior manager has already explained that there is a need for Japanese-skilled,

¹³ Temporary staffing or employee leasing is a kind of employment form, where instead of the employer (subscribing firm) the temp agency (leasing firm) makes contract with the employee and does employer administrative duties (resignation, employment, paying of wages, etc.), but the actual work happens on the employer's work-place.

Japanese-minded young staff, who help with the communication between Japanese and Hungarian workers. This is probably the reason why our former students were able to find employment within this company, as well as in other Japanese companies in Hungary in large numbers.

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Womenomics: Success or Failure?¹

Judit Hidasi

1. A Brief Overview of the Cultural History of Women's Job Seeking and Employment

The employment of women and their active inclusion in the labor market became a real necessity in numerous countries during World War II. This was mainly due to the fact that a high number of working age men capable of taking up jobs were either killed in the war or incurred permanent physical damages depriving them of their capacity to work. The social demand and need for economic recovery after the war exerted a further push effect on this ongoing process of labor restructuring. However, for a long time, in certain sectors of the economy women were significantly under-represented compared to men (i.e. women experienced horizontal segregation), as many jobs (primarily jobs in the engineering and technical sectors, and for a long time also the job of medical doctors) were considered only-for-men occupations, making these jobs an exclusive privilege of men. On top of this and in this context, we must also mention vertical segregation, which meant not only that even within the same sectors women faced disadvantages concerning job opportunities and available positions at workplaces compared to men, but that women's promotion was usually slower than that of men. In the case of certain workplaces and particular types of companies, the glass-ceiling effect was also noticeable: women were unlikely to be promoted to higher-level managerial positions, or if they were, that happened quite seldom.

All this took place in the face of events in the scope of which—parallel to these developments—the number of women enrolled in education programmes increased in all countries of the developed world, giving rise to the present-day scenario, where the

¹ This study is based on the author's direct experiences and data collection in the target country on the one hand, and grounded on numerous authoritative works of the relevant literature providing analytical and summative data, on the other. This essay has been realised in the scope of the study visit supported by Budapest Business School University of Applied Sciences Oriental Business and Innovation Center (OBIC). The paper also incorporates some aspects and elements discussed in the author's earlier studies and essays (Hidasi, 2015; 2016a; 2016b).

ratio of women enrolled in higher education and the number of women with higher education qualifications greatly supersedes the corresponding figures of men. In other words, the quite frequently quoted argument that women's lower education or qualifications and their insufficient sectorial expertise are the reasons for their lower career achievements, is simply not supported by facts.

Given that these phenomena and interdependencies exist and prevail in numerous countries of developed democracies (bearing in mind that each country is specific in terms of how phenomena and interdependencies surface and how intensively all this happens), one may argue that the situation experienced in Japan in the same fields and contexts is extremely critical. The use of the adjective 'critical' is not accidental here: in fact, due to the still pervasive influence of strong Confucian moral traditions, the Japanese society and culture have functioned along very strict principles up until the most recent times as far as socially acceptable gender roles are concerned (Goldstein – Gidoni, 2012). These traditional roles primarily advocated and saw women's role in the family as well as in the management of the family's life and affairs and in raising children. Besides, the same tradition allocated a subordinate and inferior gender role to women compared to the roles dedicated to men ('men' including fathers, husbands and even grown-up sons) and an obedient and dutiful attitude was expected of women. This in practice meant that after marrying, grown-up girls—even if they have received the best education—gave up their own careers and devoted their full attention and efforts to jobs and chores in the household and to family management. Girls did not study in higher education in order to realise their own intellectual potentials, but to gain enough knowledge to be able to support their children in their studies and school advancement. In the world of work, highly-qualified women were not considered potential or possible experts, and for this very reason women were employed in jobs requiring lower qualifications than the ones actually held by them, based on the consideration that when they were to marry, or about to deliver their first child, at the latest, they were bound to discontinue their jobs and terminate, even if temporally, their employment, thereby suspending their active involvement in the affairs and work processes of their workplaces. This model befittingly served the hurried pace of work dictated by the Japanese economy's post-World War II development: men, exerting tireless efforts, engaged themselves in their work—even at the expense of their own and their families' interests—, while women, through affirming their steady, reliable and unconditional commitment, ensured the necessary family background and environment for these efforts (Yong – Nagy, 2016).

2. Japan: The Interconnections and Interdependency between Japan's Economic Miracle and Social Crisis

Despite the heavy losses and destruction Japan had to face during World War II, Japanese economy and society recuperated at an incredibly high speed during the second half of the 20th century, and a few decades later it achieved an economic growth analysts referred to as a 'miracle'. This wonder was even more conspicuous for three reasons: on the one hand, the economic boom took place within an exceptionally short time; on the other hand, a country very poor in mineral and natural resources could achieve an economic performance that placed it among world-leading economies; and, thirdly, this economic boom was coupled with such a technical and technological development that could, all in all, be characterised by unparalleled achievements in quality. By the end of the 1980s, Japan had become a so-called "country of exception" (Morita, 1986), which was flooded by analysts and observers from all over the world who wished to learn about the secrets held by the Japanese nation (Vogel, 1979). Even in that early stage, many voiced their concerns and worries about how far and to what extent this greatly intensified pursuit of excellence in performance could continue. The price the Japanese society had to pay for this enormous success came to light and became evident only decades later (Hidasi, 2003).

In 1967, Professor Chie Nakane published her outstanding book—written in Japanese—, which soon became a milestone in social research, about the structure and operation of the social hierarchy of the contemporary Japanese society (Nakane, 1970). The strongest pillar of this society was constituted by a select layer of employees committed to the firm they were working for: they were willing to sacrifice even their private lives and were called *sarariman*, or サラリマン in Japanese (this word is the Japanese version of the English coinage 'salary-man'). This stratum of society, which was later also called "working samurais", literally gave up their own individual interests, completely identifying themselves with the goals their companies established and sacrificing themselves for the success of their companies, not sparing their intellectual power or physical strength (Hidasi, 1998).

As a result, the Japanese economy reached its peak in 1989: the spectacular growth up to this year, nevertheless, halted after the "economic bubble" burst in the same period. Discussing the period to come, many Japanese analysts expressed their bitter feelings and resentment by calling the long and protracted period of recession beginning in the 1990s the "lost decade". In Japan, the end of the 20th and the beginning of the 21st century witnessed increasing uncertainty, the accumulation of economic and social problems as well as the proliferation of political scandals and corruption,

all of which contributed to the deterioration of public morale and general sentiment (Hidasi, 2005b).

In fact, this recession finally proved to be longer and deeper than initially estimated and caused numerous serious consequences: the real estate bubble burst in the 1990s leaving behind a crashed real estate market as its aftermath, while many bank loans became non-performing. A financial crisis broke out and structural problems emerged that ultimately and inevitably led to changes in the philosophy and practice of employment. In addition, unemployment appeared, insufficiencies of the social security system came to light, and the necessity for privatisation became apparent despite repeated attempts aimed at bank consolidation (Fukuyama, 2000).

The generation of “working samurais” experienced the economic recession as a profound disappointment: many of them felt that the self-sacrificing lifestyle and all the toils of these long-long decades, whose fruits eventually were to have been financial, leading to material progress and advancement, as well as prospective well-being already in formation at that time, finally turned out to be useless. The faltering existential security experienced by this generation left the social layer of employees in a state of uncertainty and in search for alternatives.

By the threshold of the 21st century, the changes and crisis perceptible in Japanese society became quite palpable and noticeable. Several root causes account for the conspicuous nature of these changes and crisis, as described in the following points.

- One of the root causes is the tension provoked by Japan’s economic advancement induced changes in lifestyle. As a matter of fact, social consciousness in Japan could not keep pace with material development. Compared to earlier times, Japanese people lived in much more favourable circumstances, both as far as material wealth and financial circumstances were concerned, but—concurrently—human relationships changed. Families lived in more convenient homes but, in exchange for comfort, they forfeited the solidarity and security offered and guaranteed by former local or residential communities. These days, dwellers of enormous high-rises hardly know one another, and the resulting alienation and the emptiness of such human relationships make families and individuals feel quite lonely.
- A great number of traditional values—mostly cultural and ethical values rooted in Confucianism including collectivism, self-sacrifice, self-discipline, loyalty, etc.—are changing. Several of the stereotypes associated with Japanese culture seem to be challenged (Matsumoto, 2002). New generations do associate themselves with

values traditionally and specifically held by Japanese society and culture, which values have accounted for the coherence of this society so far. Individualism is increasingly gaining ground at the expense of collectivist values.

- Similarly, to many European countries, Japan is also struggling with the problem of its ageing society: even though life expectancy at birth is steadily increasing thanks to more favourable living conditions, the population size, in turn, is firmly decreasing because fewer and fewer children are born (Ota, 2016). Analyses by Japan's Council on Economic and Fiscal Policy predict that Japan's current population of 126 million might sink under 100 million within a few decades. According to some forecasts, the number of old people increases by 650 thousand annually: by 2025 the average life expectancy is estimated to reach 89 in the case of women and 82 in the case of men. This means that the Japanese society is not only drastically decreasing as far as the size of the population is concerned, but it is also an ageing society. This is perfectly illustrated by the following unique situation first experienced in 2012: the sales volume of incontinence diapers for old people in Japan was higher than the sales volume of babies' nappies!

The decrease of the size of the population also means a concurrent decrease in the number of working-age population. While formerly fresh graduates were afraid of experiencing unemployment, by 2017 the problem of the lack of labor force became so critical—not only in the productive (mainly in the automotive) sector, but also in the transportation and postal services sectors—that statistically speaking, there is 1.49 vacancies for one job-seeker, i.e. Japan is facing a demand-driven labor market. This referent value was as high as this 43 years ago, in February 1974 (TJN², 2017, July 1/3). Notably enough, at that time, the lack of labor force was attributable to the high-powered economic boom, while the present situation is caused by a decrease in the number people of working age. Concerning this issue, other causes, which fall beyond the scope of this study—and remain unknown to or are not made public to the world outside Japan—are also at play (these causes, for example, include several million people in total who refuse, or fail to be involved in, social participation) (Hidasi, 2012), but the fact still remains a fact that Japan is facing an acute loss of labor force. One way to combat this problem is to increase women's participation in the labor market, the other solution could be to invite migrant workers to the country (Yong – Nagy, 2016), which latter solution the Japanese government is unwilling to resort to for several reasons.

² TJN: The Japan News. English-language daily digest of Yomiuri Shimbun

- The institution of marriage is currently also showing signs of crisis. This is apparent partly in the increased number of divorces, and also in the fact that young people's—mostly girls'—willingness to marry is lower than ever. The economic and existential security that formerly only marriage could guarantee to women is now also available for them outside marriage. In addition, marriage, which was earlier seen as a safe haven in terms of economic security, has lost some of its appeal due to the fact that the chances to find lifelong employment have been on the decrease because of changes in employment structure and as a result of globalisation-related challenges. In brief, the institution of marriage has by now lost its most powerful and stable uniting force, that of existential security. It is also true to say that many young women refuse to undertake the risk of marriage: they prefer to stay at home with their parents, live their lives as they wish and spend the majority of their earnings on themselves. These women are called “parasitic singles” or パラサイトシングル (*parasaito shinguru*) in Japanese: they are the ones who are not ashamed or reluctant to live with their parents as long as their fathers and mothers can afford to support them. The number of these women is constantly increasing: almost 45 percent of young women exhibit this lifestyle in bigger cities in Japan. Whereas earlier social thinking and attitudes sanctioned single women, today's attitudes tend to be increasingly liberal. In other words, the social pressure on women that formerly stigmatised them (for remaining single) and also their families, is now dwindling away.
- Celibacy syndrome: it is not only the number of those wishing marry that is decreasing, but also fewer and fewer young persons seek to live in a relationship (Ota, 2016). Primarily due to considerations of convenience, a surprisingly high number of persons in the young generation decide to refrain from love and social relationships and opt for committing themselves to living in the virtual world for, and by, themselves (Hidasi – Varga, 2014). A 2011 survey by the Japanese National Institute of Population and Social Security Research claimed that 61 percent of single men and 49 percent of single women aged between 18 and 34 had never had any love relationships in their lives. A research by the Japan Family Planning Association (JFPA) has shown that 45 percent of women between 16 and 24 years of age “are not interested” in establishing bodily or physical contact, and that they literally disdain any sexual relationship.
- Changes affecting Japan also impacted the assessment of women on the labor market (Hidasi, 2005a). Even if the employment of female labor force became acceptable, fewer women hold managerial or leading positions than men and women also earn lower salaries compared to men (Shibata, 2007). In spite of this, an increasing number of women seek career building opportunities instead of

getting married. Single life has also become quite fashionable, which reflects these persons' hope for a "more exciting" life and their desire both to attain self-realisation and to achieve their individual goals.

- These days, the Japanese nation's self-image is also undergoing profound changes: social practices among young Japanese people have been transformed, and they more increasingly try to imitate Western, and primarily, American behavioural patterns. These new-wave Japanese people do not strive to hide their feelings as much as this was earlier necessitated by social etiquette. A young Japanese company employee is no longer as committed to the firm as members of the previous generations were. In a programme aired by TV channel Asahi (June 18, 2017), middle and top-ranking company managers voiced their dissatisfaction when they complained that an increasingly higher number of male employees "dared to refuse their bosses" when invited to join them for evening drinks (Hidasi, 2012). This never actually happened before, and such an attitude is still considered a "selfish" act. On the other hand, these companies fail to provide the safety net that formerly guaranteed their labor force uninterrupted and secure employment with the given company until they retired.
- Changes in value judgements almost completely reflect division lines between the different generations (Brinton, 2010). Changes started not in the entire society but only in a certain layer of the society, more precisely among the young, which gave rise to the existence of fundamentally different, and actually opposing, ways of behaviour even within the family. Let us mention, as an example of this, the hard-working father who sacrifices his own interests and those of his family for the success of the company he works for as opposed to his son, who is unwilling to work or to study; an equally fitting example is a home-making mother taking care of her entire family vis-à-vis her daughter, who spends all her money on herself and leads an uncaring and joy-seeking life (Kingston, 2004).

In essence, it must also be understood that Japan has come to understand that she needs to give up the utopia that its economic growth is continuous and unbroken, that human performances can still be increased and that the human capacity can be further expanded practically without limits. Japan has also realised that any further exploitation of the human productive capacity is only possible through sacrifices impacting social and interpersonal relationships, which after all may not prove a cost-effective strategy—as supporting evidence, suffice it to mention the behavioural anomalies observable among younger generations in Japan (Hidasi, 2011; Hidasi, 2015).

3. Need for New Solutions

Former Prime Minister and party president of the Liberal Democratic Party (LDP) Shinzo Abe was elected Prime Minister of Japan in December 2012 again.³ His success, apart from the slightly nationalistic trend in the foreign policy he promised to lead, was due primarily to his economic programme targeting the stimulation of the economy. Suited to his name, his economic programme has come to be called “Abenomics”. This programme is based on three arrows, i.e. policies or pillars: fiscal reform, which was started in 2013; changes in monetary policy, which have since been in progress; and thirdly, structural economic reforms—most of which is in progress.

An important element of the last pillar is the policy of womenomics (which term perfectly rhymes with Abenomics), which targets the integration of the female labor force, i.e. the potential afforded by women, in the processes aimed at economic stimulation. This programme—in the context of Japanese traditions—was met with considerable uproar and opposition both by the Japanese society and by the world of Japanese employers despite the fact that the programme cannot be declared unprecedented if measured against developments on the level of world economy.

Some scholars regard the 21st century the age of “3W”, that is the age of Weather—the Web—Women. They claim that the role of these three factors, i.e. climate, the internet and women, will have a definitive role to play in the events to unfold on the global level in this century. Analysts have already pointed out that the employment of women constitutes an even more important factor of growth in the modern world economy than technological revolutions or the rise of China (Zimbardo, 2015). In fact, it can be observed that recently girls have been outperforming boys at school and that a higher ratio of girls continue their studies in higher education than boys. Given this situation, it is no wonder that women are catching up with men in the labor market and they even assume leading roles. They perform well not only as employees but there is an increasing number of successful women entrepreneurs. A high number of analysts agree that women, more precisely, women employees, continue to remain one of the sources of economic growth in the 21st century (Shipman – Kay, 2009). With reference to women’s active role in the economy, it was leading investment banks, including Goldman Sachs that started to use the term “womenomics” referring to

³ On 20 September 2018 he was re-elected as head of his ruling Liberal Democratic Party, paving the way for up to three more years as the nation’s leader. With a third term as party leader, Abe is poised to become Japan’s longest-serving leader in August 2021.

the potential source of economic growth women represent. Strategic analyst Kathy Matsui, who knows the Japanese situation probably the most thoroughly, has been engaged in analysing the situation of female labor force in Japan since 1999 and she sees the bridging of the gender employment gap as a potential source and means of leaving behind economic stagnation. According to her forecasts, if the same employment ratio could be achieved in the case of both women and men, this could result in as high a GDP increase as 13 percent in the Japanese economy. In addition, a rise in the number of women in leading positions is also likely to improve corporate performances. This assumption is in line with IMF President Christine Lagarde's statement, which reads as follows: "When women do better, the country does better." "I know this is economic jargon, but essentially, if you bring more women to the job market, you create value, it makes economic sense, and growth is improved. There are countries where it's almost a no-brainer: Korea, Japan, soon to be China, certainly Germany, Italy. Why? Because they have an aging population."

Perhaps, prompted by analysts' forecasts, but—in my interpretation—more probably, due to the realisation that Japanese society will exhibit a more favourable attitude to the employment of Japanese women than to an influx of migrant workers to compensate for the currently experienced loss of work force, Prime Minister Abe announced his economic programme (cf. his talk on September 26, 2013 at the 68th General Meeting of the UN⁴ and his talk in January 2014 at the World Forum in Davos⁵)—which was sceptically received by many—and committed himself to ruthlessly realising this programme. The situation in Japan is quite serious and can be traced back to several causes: there is a steep decline in birth rate (the birth rate fell to 1.44 from 2.1 per couple, which latter figure signals sustainability with respect to population reproduction),⁶ and the effects of stringent immigration rules and restrictions, coupled with the aging Japanese population, jeopardise not simply, and not so much, economic stimulation but the mere sustainability of the Japanese economy. It is not accidental, either, that the Abe Government has decided to set up a new government agency called Ministry of Human Resources Development, which, according to Prime Minister Abe, aims at "effecting revolutionary changes in the field of human resources development by way of doing away with [...] conventional

4 Japanese Prime Minister's Speech: The 68th session of the UN General Assembly (2013): [online] Available form: <https://www.youtube.com/watch?v=C8ElWlzsI00>

5 Davos 2014 - The Reshaping of the World Vision from Japan (2014): [online] Available form: <https://www.youtube.com/watch?v=ApRaK516PZU>

6 2016 was the first year in the history of post-war Japan when the number of births did not reach 1 million, which figure in a country with a population of nearly 127 million clearly shows the overturning of the age pyramid.

stereotypes so that we [i.e. Japan] can become a country that is capable of offering everyone an endless array of possibilities (of self-realisation)”⁷ (TJN, 2017, June 21/5).

4. The Action Plan of the Japanese Womenomics

The action plan of womenomics, announced by Prime Minister Abe, consists of numerous points. The programme aims at encouraging an increasing number of women:

- to take up jobs in general;
- not to give up working after childbirth and to return to the world of work as soon as possible; and
- to be willing to accept higher level positions if promoted.

Giving up their prejudices and disregarding factors of insecurity and unforeseeability typically associated with female workers (how many children female employees wish to give birth to and when they are planning to do that; whether or not they would like to return to their workplaces while they are raising their children, and if so, when; women might have to take days off work due to unexpected events including their children’s illness, compulsory medical check-ups, etc.). Employers, companies and the private sector are expected to be prepared to:

- employ an increasing number of women; and
- to achieve a higher ratio of female employees also in higher-level positions.

Since the announcement of the concrete plans in 2013, several changes and restructuring have taken place, which are briefly summarised below.

4.1. The Employment of Women

The target figure set at the start of the programme, i.e. the goal that the ratio of female workers should closely approximate the ratio of male workers by 2020, seems to have been achieved. In 2016, 66.7 percent of working-age women participated in

⁷ “We will carry out a revolution in human resources development by excluding conventional stereotyped ideas, so that Japan will become a country in which there are plenty of opportunities for everyone” (TJN, 2017, June 21/5).

the labor market in some form of employment (as opposed to the 92 percent ratio of working-age men), which is a surprisingly high number (in the USA the same ratio is 64 percent). Regarding this figure, it might be concluded that the problem is caused not by quantity but by quality. 57 percent of women in employment do part-time jobs, which figure may also include women with an employment of minimal working hours such as a few hours every week. With reference to jobs, the Statistics Bureau of Japan differentiates between the following types of employment in the statistical data it provides:

- A) regular employment;
- B) non-regular employment;
 1. part-time employment;
 2. temporary "part-time employment";
 3. temporarily dispatched workers delegated by employment agencies (dispatched workers from temporary agencies);
 4. contract employees or entrusted employees.

The situation of persons in non-regular employment is quite insecure: this condition affects mostly women and young employees, who are willing to work for low wages (with no fringe benefits attached and without any institutional interest representation). As for female employees, in the case of childbirth, women most commonly (70 percent) give up their jobs and typically engage themselves in child-rearing for long-long years to come or even for several decades. As opposed to male colleagues, this means a great disadvantage, which women cannot compensate for when it comes to their career advancement.

4.2. Appointing More Female Workers to Leading Positions

In the Japanese business sector, the ratio of women in high managerial positions is as low as 5 percent (Yong – Nagy, 2016, p. 251), as opposed to the global average of 21 percent. Actually and initially, womenomics was planning to raise the ratio of women in managerial positions (including jobs in the economic and governmental sectors) up to 30 percent by 2020, but this target figure was lowered to a much more realistic 7-15 percent (the referent percentage value depends on the type of companies and institutions concerned), with a concurrent modification of the deadline from 2020 to 2021. In the meantime, as of April 1, 2016⁸, a new law entitled 'Female Employment Promotion

⁸ The Japanese financial year runs from April 1 to March 31.

Legislation' came into effect. This piece of legislation in support of female employment expects all companies and institutions with 300 or more employees in both the private and public sectors to submit annual reports concerning 1) the actual ratios of male and female employees working for the given company or institution and 2) the action plans devised to regulate or, if necessary, adjust this ratio. Even if this law does not stipulate any sanctions, many analysts believed that the law does constitute a very significant step thanks to its concrete target date, increased transparency and expected competitor-induced pressure. These analysts were more than right: out of the companies and institutions concerned, 98 percent met their obligation to provide data by as early as 2017. Ultimately, both the discipline so characteristic of Japanese institutions' performance of administrative duties and their innate urge and drive to completely fulfil their tasks were again observable, this time concerning data provision.

All in all, the corporate sector, apart from its duty to provide data, is expected on the one hand, to generally increase the number of female employees in managerial jobs (the question, however, still remains: who can be considered a "manager") and on the other hand, each company must have at least one woman in a high-level managerial position, which latter step also signals one of the tangible target figures specified by this initiative. As for realisation, the problem that lies in the nature of this expectation and in the desire to fulfil this expectation is that very often companies and institutions act only for the sake of PR: it does not really matter if one of the vice-presidential jobs is held by a woman if no real power or space of decision-making are associated with this job and if, consequently, the whole position is relegated to a job of nothing else but "showcasing".

4.3. Nadeshiko Brand Recognition for Large Enterprises

In the 2012 fiscal year, the Japanese Ministry of Economy, Trade and Industry (METI) announced the *Nadeshiko Meigara*⁹ (Nadeshiko Brand) programme, and in its initiative it was joined by the Tokyo Stock Exchange (TSE). The brand serves as a kind of recognition to be awarded to those registered companies in a given year that contributed the most successfully to female employees' success at their workplaces. This is nothing else but the great-scale PR-purpose recognition of outstanding diversity management: in the year 2017, as many as 100 corporations received this recognition,

⁹ In Japanese culture, the second part of the original expression '*Yamato nadeshiko*' (やまとなでしこ or 大和撫子) in the traditional sense means "real Japanese female patriot", but the expression is slightly obsolete and thus sounds archaic.

mostly internationally famous and acknowledged companies including Daiwa House, Kao Corporation, Toshiba, etc. The marketing value of the gala event hosting the award ceremony produces exceptionally high returns as far as the CSR budget of the referent companies are concerned.

4.4. Reduction of the Differences between Men's and Women's Income

All countries of the world are characterised by differences between men's income and women's income and their pensions: men earn higher salaries and receive higher pensions than women. The extent of the difference varies from country to country and the root causes behind this phenomenon are also diverse. The situation is exactly the same in Japan, but Japan exhibits even more significant differences between the incomes of men and women than other developed countries. In the case of women, the annual average income was USD 22,727 in 2013 as opposed to the sum of USD 40,000 for men in the same year. This huge difference is partly explained by the fact that women are more likely to be employed in less prestigious jobs, which offer lower salaries. This might well be the situation, but it must also be observed that, in the case of men and women holding the same positions, men will earn much higher salaries than women. In 2016, the average income of women in full employment was USD 2,157 monthly (NAR¹⁰, February 23, 2017), which constituted a mere 73 percent of earnings by males. This already signals an energetic catch-up as compared to the corresponding rate of 60 percent in 1990, but there is a long way ahead as far as a real closing-up in the salaries received by the two sexes is concerned. As a result of the acute shortage in labor force characterising the most recent years, employers are now forced to offer more favourable salaries to women, even if sectoral differences may still be quite huge. Slowly but steadily, women tend to occupy more and more managerial and leading positions, which also contributes to more balanced incomes. Even so, with respect to income differences, Japan still seems to be lagging behind most OECD countries in income differences.

4.5. Increasing the Capacity of Nurseries and Kindergartens

As long as a mother—in line with the traditional Japanese family model—was a home-maker from the birth of her child until the time her son or daughter started university, and as long as a mother's main—and mostly one single expected—activity

10 NAR: Nikkei Asian Review – English-language weekly.

was child-rearing coupled with the concurrent management of the household, the role assumed by nurseries and kindergartens was almost negligible. Nonetheless, recent changes in mothers' roles and the fact that they took up jobs, necessitated the opening of new nurseries and kindergartens or, as an alternative solution, capacity-building in already-existing nurseries and kindergartens. At the start, the target set by the womenomics programme was to increase the capacity of nurseries and kindergartens by 400 thousand places by the year 2017, and to eradicate waiting lists as extensively as possible. For that purpose, incentives and measures for lifting legal restrictions were instigated in order to facilitate an increase of places available in kindergartens: new kindergarten teachers were employed, state-owned lands, estates and buildings were allocated for the operation of kindergartens in each area, and special workplace-based nurseries and kindergartens were also established. By 2014, as many as 219 thousand new places were set up, thanks to considerable efforts undertaken by locals and their municipal governments. Yet in the meantime, it was realised that the demand for new places is much higher than the one initially identified: the target figure was increased to 500 thousand with a concurrent extension of the deadline up until 2019. In addition to all this, new capacity-building plans and the setting of revised target figures are underway but the waiting lists may be eradicated only as late as by 2022, given the best-case scenario (TJN, 2017, June 3/4).

The greatest problem, however, is not really the establishment of new places but the education of properly trained staff including professional nursery and kindergarten teachers. If there is no appropriately trained staff, the given institution is not licensed to operate, according to Japanese laws. At the same time, depending on the region concerned, this sector is facing quite serious understaffing: there simply is not enough educated and well-trained nursery teachers (TJN, 2017, June 17/5). To combat this problem, several training programmes were hastily launched, and the fresh graduates from these programmes will hopefully be able to compensate for the missing labor force. At the same time, just like many other countries, Japan also witnessed the emergence of the initiative of establishing family-run and private home-based kindergartens coupled with other possible solutions as potential answers in response to the shortage of places in kindergartens.

Quite peculiarly, the Japanese society does not cultivate the model of family helpers (i.e. the grandparents or other relatives helping the mother and her family)—unlike the well-established practice e.g. in Hungary. The analysis of the social and psychological causes of this Japanese phenomenon (Hidasi, 2007) exceeds the scope of this paper, but in general it can be stated that Japanese families very seldom resort to the practice of involving family helpers, and the very few who follow this model have

adopted it based on their positive experience gained abroad. Japanese families who are distrustful of strangers, often do not employ the services of babysitters either, which leaves the mother or some form of institutional care-provision to remain the only solution to this problem.

4.6. Family Support Benefits

In 2012, one of the explanations behind the planned multi-stage increase of the consumption tax from 5 percent to 10 percent¹¹ was the intention to spend the tax revenue thus generated on financing forms of child-rearing support. Nonetheless, the majority of this annually generated tax revenue was spent on related quantitative developments and infrastructural investments. In response to this spending policy, a group of young parliamentary representatives is currently working on drawing up a bill, to be passed by the Japanese Parliament, that would require all employees to pay a minimal contribution (0.1 percent of the monthly income) to this end, which could generate a considerable sum in tax revenues to be spent on costs associated with childcare and children's education. On top of this, some members of parliament advocate totally free education including no-fee tertiary education thereby supporting families in their endeavour to have children. Put differently, there is an intention to act and help, but realisation and implementation do not happen from one day to the other, oftentimes because of the carping criticism opposition parties.

As of April 2014, the Japanese Government raised the amount of childcare benefits from 50 percent to 67 percent of the previously earned income in the first six months of child-rearing, with an amount of 50 percent in the period of the second six months. Additionally, fathers are encouraged to take out childcare allowance and it is considered preferable that the corresponding ratio of fathers doing so increase from 2.6 percent registered in 2011 to 13 percent in 2020. At present, a change in this walk of life is also taking place: in 2016 as high as 55.9 percent of men seized the opportunity to take out childcare leaves within a period of two months following the birth of their child. Even if these childcare leaves were brief—with 23.0 percent taking out 4–6 days, 21.8 percent taking out 6–10 days and 20.2 percent taking out 3–4 days—, it is a fact that these men did “dare” to take this opportunity afforded by the law, which signals a change both in mentality and in the way of thinking concerning attitudes to gender roles.

¹¹ In 2017, the rate of consumption tax is still 8 percent, while an increase to 10 percent is envisaged to take place in October 2019.

In fact, related to child-rearing, one of the terms coined in the previous decade is *ikumen* or イクメン, which compound originates from the clipped form of the Japanese word *ikuji* or 育児 (meaning child-rearing) and the English word *man*. This new coinage denotes fathers who assume an active part in child-rearing. The media treats pictures of fathers taking care of their children sitting on swings, changing their children's nappies or helping their children with their homework as sensational images; still, these images all signal a tremendous change and communicate that it is also a possibility for fathers to actively contribute to child-rearing.

4.7. Restructuring of the Tax System

The Japanese tax system allowed dual-earner families to take advantage of the annual tax benefit deductible from the man's income (in accordance with the number of supported persons), if the woman's annual income does not exceed JPY 1.01 million. This very low income threshold demotivated women in taking up higher-earning jobs. As a response to the problem, this income threshold was raised to JPY 1.5 million as of 2016. Yet, this increase still hinders women from taking full-time jobs and thus makes such forms of employment practically unattainable for them.

As a matter of fact, the current social security system insures women only in case they are really "dependant". This means that the tax and contribution systems work against the realisation of the dual-earner family model. In other words, as long as the systems of taxation and family allowances continue to fail to be altered in a way that they no longer penalise females taking up jobs, no major breakthrough can be expected in connection with women's employment. Several suggestions to combat this problem are being considered and discussed at present, but the introduction of possible solutions is far ahead in the future.

4.8. Relaxing Restrictions Concerning Migration and Immigration Policies

According to plans, the restrictions concerning immigration policies will be relaxed. These former restrictions prevented Japanese families from employing migrant caregivers, babysitters or nannies; actually, this regulation is currently being changed and prepared Japan would be willing to receive migrant workers from the South Asian region (from Malaysia, Indonesia, the Philippines, etc.) so that migrants can take jobs such as nursing, care-giving and domestic work. So far, this was impossible, which put an immense amount of unbearable pressure and burden on mothers:

apart from child-rearing, they had to care for the elderly members of their families, which chores occupied all their time, leaving them no opportunities to even think about taking up jobs. To be sure, the increasingly aging Japanese society is unable to provide enough hosting places for those elderly who are already incapable of supporting themselves: there are long waiting lists of several years in public institutions, while prices in private institutions are prohibitively expensive for many. Put differently, both the development of childcare institutions and an increase in the number of institutions providing care for the elderly—including necessary staffing—constitute the precondition of mothers' taking up jobs or resuming their former employments.

In my understanding, it is the attempts to have these nursing and caregiving jobs done and the urgent need to find suitable workforce to compensate for the loss of Japanese workers that prompted a need for innovation in the scope of which Japan took a step in the direction of developing robotics and artificial intelligence. At present, in the global leader's position, Japan has been engaged in rapid developments in this field and within a few years, innovations, causing paradigm shifts, are likely to appear in the service and transportation sectors including the development of robots capable of warming up food or serving customers. Yet, concerning these innovations, another very pressing question is what effect the cooperation between humans and robots (i.e. the use of the human–robot interface), an interaction envisaged to replace inter-human communication, will have on the already quite lonesome, solitary and alienated Japanese society...

5. Global Gender Gap Index in Japan

As evidenced by the facts described above, control-purpose measures and actions undertaken by the Japanese government abound (METI, 2017): concerning each plan and target figure, very ambitious deadlines have been set (Cabinet Office, 2016). All researchers, observers, analysts and experts agree that there have been positive developments with respect to the implementation of womenomics (Matsui, 2014), and for that very reason it came as a great surprise that Japan actually slipped back 10 places in the 2016 Gender Gap Index ranking, and 3 more down in the 2017 GGI ranking¹² and hence remains at the bottom of the Group of Seven advanced nations.

¹² Since 2006, OECD countries have been annually ranked on the basis of their gender-gap-index, i.e. the differences between the unequal opportunities and possibilities (health, education, economy/employment, participation in public life/politics) experienced by the two genders, and this is expressed in the Gender Gap Index ranking.

Countries are ranked based on 14 indicators in four categories: economic participation and opportunity; political empowerment; educational attainment; and health and survival.

Japan did slightly improve in 2017 in the economic participation and opportunity category, rising to 114th place from 2016 year's 118th ranking among 144 countries. But it still fell behind in some of the five indicators used for the economic grade. Japan ranked 116th in terms of high-ranking officials in the public and private sectors and was 100th in terms of income equality. Although more Japanese women are enrolled in higher education, and the income gap with men is narrowing, the nation ranks 123rd out of 144 in political empowerment for women.

Many analysts attribute this slip-back in the ranking mostly to changes in the applied methodology, i.e. the methods used for calculating the different indicators for the purpose of preparing the ranking.¹³ At the same time, it must not be overlooked that many of the countries featured in the list have, in the meantime, taken several steps forward in promoting the elimination of gender inequalities, and the resulting list of countries has consequently undergone quite a lot of changes reflecting the advancement of these countries. On an international scale, several methodologies (Hidasi, 2016) and ranking systems¹⁴ exist for the analysis and comparison of gender inequalities, but with respect to Japan it is the OECD methodology that provides relevant data. As regards the issue of gender inequalities, it must also be noted that Japan finds it increasingly difficult to avoid the impacts of globalisation. Concerning the above issues, Japan showed stagnation for quite a long time, while concurrently other, much smaller countries (Singapore, Finland, etc.), which had the capability and opportunity to take steps and adapt more quickly and more dynamically, made their way forward rapidly. In the light of all this, Japan will have to implement changes in its own interest, given that it wishes to remain one of the leading countries of the international community (Fujimura – Fanselow, 2011).

Currently, the weakest point in the realisation of the womenomics action plan is to put into effect the necessary modifications in tax laws, which requires several years of interest reconciliation and negotiation due to the applicable legislative protocols.

¹³ Rankings used by the World Economic Forum. [online] Available form: <http://reports.weforum.org/global-gender-gap-report-2016/economies/#economy>

¹⁴ EU: Gender Equality Index (GEI); Taiwan: Gender Inequality Index (GII) (Hidasi, 2016).

6. Obstacles in the Way of Implementation

Needless to say that there are numerous factors and arguments against the womenomics programme, and these include the following:

- Social expectations and social thinking promoting traditional gender roles do not support this process of change. The principle of *DanSonJoHi* (男尊女卑), i.e. men's rule over women, which is rooted in the main principles of Confucianism, is an attitude that still defines and determines the mentality of a high number of men (first and foremost, the mentality of middle-aged and older generations who are in fact in decision-making positions currently!). Up until the most recent times, girls were raised in a spirit of aspiring to become ideal *RyōSai KenBo* (良妻賢母), i.e. good wives and wise mothers.
- Employees very rigidly stick to traditions and for that reason they are not very keen to give up male-dominance and authoritarianism (Yong – Nagy, 2016).
- Many women are hesitant about taking up jobs and are alarmed by the latent persecution, irking and harassment still characterising some workplaces: these actions are aimed at making women's lives a hell at the workplace, and consequently, women may eventually decide to leave the world of work after all. Such irking and harassment include *matahara* (mother's harassment), the act of irking or making comments on mothers or expectant mothers; *sekuhara*, i.e. sexual harassment; and *pawahara* (power harassment), the misuse of power. All these acts may, in practice, target not exclusively women: in general, such activities are always aimed at the weaker members of the society. Amélie Nothomb's 1999 French Academy literary award (Grand Prix du roman) winning novel entitled 'Stupeur et tremblements' (and its film adaptation in 2003) deals with this very problem.
- The most important counterargument against womenomics is that women's more active participation in the world of work might further exacerbate the situation of the already problematically low number of childbirths. To refute this argument, social researchers quote the example of those developed countries (Denmark, France, Sweden, USA, etc.) where fertility rates are higher despite women's higher employment rates and juxtapose these findings to other countries where fewer women are employed (South Korean, Italy, etc.) and, in spite of this, the number of births is lower. In a nutshell, the correlation between childbirths and women's employment is not in line with what could reasonably be expected.

- Talking to average Japanese people in the street and interviewing them about the proposed changes, we have found that many exhibit scepticism about the potential success of the policy of womenomics. They believe that government offices and the public sector in general will, in all likelihood, be able to fulfil the expectations stipulated by womenomics and meet the set target figures in the scope of the planned changes. However, in the private sector, including small- and medium-size enterprises, this reform-purpose action package is improbable to be fully realised: employers will purposefully refuse to cooperate and will create administrative burdens to hinder the realisation of the plan. This is likely to happen: even if studies showing the potential positive results of this initiative have been compiled by several researchers and analysts, these studies have still failed to contribute to employers' acceptance of the programme, who doubt that women's increased employment rates would also generate higher profits. In fact, reality shows a different picture: a recent survey conducted by Harvard University (TJN, 2017, June 5/7) also confirmed that the operation of mixed teams of men and women increases performance at work and consequently boosts corporate performance.
- A change and transformation in women's mental and psychological attitudes would also be necessary for the success of womenomics. This task would require increased participation on the part of schools and the media. The lack of self-confidence, constant underestimation of one's skills and capacities as well as a fear of potential vilification prevent many women from undertaking the struggle to fight for those rights and opportunities that they should ideally have access to on the basis of their skills, knowledge and qualifications. In the context of this identity crisis, one of the most popular and befitting words of the 2000s was *karizuma shufu* (charisma housewives) or *カリズマ 主婦* (super housewives) (Goldstein – Gidoni, 2012), which described women who could boast of some highly successful or acknowledged entrepreneurial venture (be it style-designing ice-creams, or new technology of baking bread, interior design, etc.) in fields most commonly associated with typical women's activities.
- As the last of these obstacles, we must also mention the need to terminate the use of those utterances and communications that disqualify women or are discriminative against women. Comments such as "it's high time for you to marry" or "instead, you should consider having babies" targeted at women members of parliament addressing an interpellation are not only inadequate but are also unjustifiable in a society that calls itself democratic. A change in these practices must also be achieved as attitudes of this kind very strongly and very negatively influence public opinion and the general demeanour to women.

7. Conclusions and Future Perspectives

The goal is now set and given, the only question that remains is by what time and to what extent the planned activities and tasks will and can be executed. All this is exacerbated by the fact that the time bomb is in fact ticking fast: the situation of the acute shortage of labor force necessitates a quick solution.

The peculiarity of the Japanese policy of womenomics lies in its top-down strategy. Phrased differently, in Japan the ratio of female employment does not and will not rise due to a civilian or grass-root initiative, like it happened a while ago in developed Western European democracies, but as a result of a top-down approach, which economic players and the society are beginning to realise, somewhat unwillingly, in line with directives from higher levels and on the basis of government expectations expressed by target figures. The method of implementation could not be any different in Japan, as the only possibility for the government to combat all the problems above is to issue orders and directives requesting employers to carry out the related tasks and the specific jobs.

The other unique feature of the initiative is that womenomics is not considered a human rights issue in Japan, and it is not in any way seen as a programme facilitating women's mental and intellectual development and self-realisation: the programme is no other but a very stringent economic action plan.

Japan is rightfully proud of the technological and economic successes it was able to achieve during an unprecedentedly short period in history. At the same time, Japan currently faces several challenges that will inevitably influence its success and prosperity in the future. One of these challenges is concerned with finding an effective response to the country's social crisis: new ways and forms of social behaviour and changes in the Japanese value system demanded by younger generations induce numerous shifts in social norms so far considered traditional and exclusive (Ueno, 2010).

In fact, sooner than later Japan will be forced to give up its conviction that everything depends solely on one's will and invested efforts. The Japanese average person is convinced that he will continue experiencing uninterrupted periods of prosperity and that it is only his imagination that limits his material well-being. In addition, he also believes nothing can stop the series of new developments. However, in this day and age, it no longer suffices to be convinced that "one must want to do things, act accordingly and success will follow". Today the world is much more complex than before: now it is not enough to have only one's will and stamina to compensate for

one's lacking knowledge, talents, innovation or creativity (Hidasi, 2016a). Naturally, in numerous areas, primarily as far as the development of one's own skills and competences is concerned, strong will continues to remain one of the keys to success, but the playfield has, in the meantime, been expanded: the areas of assessment no longer comprise only internal and country-specific developments but comprise a much larger scope. In response to novel—mostly international—demands, what is necessary is advancement and progress in education and scientific development.

In Japan, the state of affairs above is coupled with very pressing social problems the management of which is really urgent: the longer the country waits to address these issues the more difficult the tackling of these problems becomes both financially and structurally. These problems include the ever-growing shortage of labor force and the issue of the restructuring of Japan's employment policy; the very rapid ageing of the Japanese society and the accompanying healthcare and social security reforms; the declining number of children, which fact fundamentally impacts not only employment policy but also social security; and last but not least, education-related concerns. These issues are decisive from the point of view of the general mood in society and social consciousness and should not, in any way, be underestimated in importance, as these factors provide the stamina and the vigour of each society. All in all, addressing each of these issues constitutes an almost unmanageable and highly complex task. Nevertheless, due to the interconnectedness of these problems and their interrelated impacts, the cause and effect relationships behind these issues, together with the strengthening and weakening effects associated with them, have by now become more obviously apparent than they had been in the past. The Japanese society has recognized the existence of these problems and the social perception of these issues already surfaces on the level of the Japanese social consciousness.

It is easy to realise and acknowledge that in Japan:

- the elimination of female underemployment, i.e. the more effective and successful utilisation of the female potential, can generate an immense amount of social energy. As a result of the mobilisation of women's and girls' so far hidden skills, capacities and knowledge, the future is certain to abound in really great achievements;
- girls constitute a more highly educated layer of Japanese youth. There are several reasons behind this phenomenon: the number of female university students is higher than that of males. Also, 80 percent of young persons struggling with psychic and other behavioural disorders are boys, which means that a relatively high portion of boys (annually approximately 100-200 thousand boys) will not continue

their studies in higher education. In our present knowledge-based society, several institutions and corporations will recruit highly-qualified labor force and the need for such workers will further increase in the future: in this scenario, it will be easier to find girls for these positions due to the higher level of education they can boast of;

- compared to boys, a higher number of girls take part in partial studies abroad and more girls than boys continue their graduate studies abroad. This can be explained by the current Japanese employment policy: those who are not contracted by their future employers in the year of their graduation (which is the usual scenario in the Japanese tradition of finding employment) may quite easily experience employment problems. This situation is, however, likely to change in the future due to the already pressing lack of labor force. As a result of having pursued studies abroad, girls' English knowledge excels that of boys. In Japan, a country which cannot boast high levels of English proficiency, this competence constitutes a great added value and, in the future, good English knowledge might easily function as an important selection criterion in the case of institutions more extensively engaged in internationalisation;
- women's communication skills are better than those of men, and they are capable of establishing more developed and more complex webs of human relationships than men. In addition, the knowledge and flow of information reaching women through these channels can be used by institutions and companies for their own benefit, thereby generating added value, be the purpose of these relationships marketing, services or innovation.

In conclusion, it can be claimed that in the past two decades Japan has faced as many challenges and has undergone as many changes fundamentally questioning and impacting social consciousness as other countries experienced over a period of a hundred years. The economic recession, which negatively impacted the Japanese nation's identity and social self-confidence, the restructuring of social values, the emergence of trust deficit in government as well as declining trust in science and technology, presented the entire Japanese nation with a huge ordeal and several obstacles to overcome. Japan's rebirth depends on how quickly the nation will be able to process and successfully manage these challenges. The programme called *womenomics* plays a vital role in this process. Womenomics is far from being a completed and fully-realised programme: a great number of its elements and components are currently being formed and transformed.

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Trade Relations between Hungary and Japan – Trends, Practices, and Perspectives

Zoltán Bassa

1. Historical Background: The Reasons for a Belated Development of Bilateral Trade

Trade between faraway countries is not a new phenomenon. Hungary and Japan had trade relations since the 19th century, but both World Wars caused a long pause in bilateral trade. After World War II, Hungary was part of the political bloc led by the Soviet Union. The Soviet leadership was reluctant to seek a better political and economic relationship with Japan. US military bases in East Asia (including those in Japan) were part of the infrastructure to fight the Vietnam War and to contain Communist influence in the region. Japan is not part of a political-military alliance like the North Atlantic Treaty Organisation. In this set-up, Japan accepted a smaller playing field in terms of developing her own and more independent diplomatic and trade relations during the Cold War. This also contributed to the slow development of diplomatic and trade relations between Hungary and Japan. Trade was hindered also by the Coordinating Committee for Multilateral Export Controls (hereinafter: CoCom with Japan as one of the members) regulations prohibiting arms-related and 'strategic' technology-related exports to countries that were members of the Council for Mutual Economic Assistance (Comecon). There were only rare cases of violation of this principle, with technology flowing via third country re-exports (Kiss, 2009, p. 333) or due to illegal activities of diplomats (Súdy, 2009, p. 369).

Political and trade relations between Hungary and Japan did not exist for almost 15 years after World War II. In 1956 the Soviet Union and Japan started diplomatic relations that paved the way for Hungary-Japan negotiations. Diplomatic relations between Hungary and Japan were established only in 1959, with a delay due to the international diplomatic aftermath of the Hungarian revolution of 1956. A trade representative office was opened in Tokyo in late 1960 followed by the signature of an agreement for arbitration of trade-related disputes in 1961 by the Chambers of Commerce of the two countries (Kiss, 2009, p. 334). These developments led to an increase of imports from Japan, but Hungarian exports lagged until an increase in the second half of the 1960s thanks to the publicity of Hungarian sports' successes

at the Tokyo Olympics and trade promotion activities organized by the Embassy of Hungary in Tokyo, opened in 1964. The pattern of Hungary's trade deficit with Japan was perceptible from the very start of the trade relations and has continued to be felt for the subsequent decades until today.

In 1971, a non-governmental organization promoting economic co-operation between Japan and Hungary was established with the name 'Japan-Hungary Economic Club', and there were mutual business delegations. There was no direct Japanese governmental involvement in these activities. Rather they served as tools for consultation between Japanese privately-owned companies and the Hungarian government authorities (Glisic, 1976, p. 122). It is important to mention here the first government-level bilateral trade agreement signed in 1975.

The 1970s saw a sudden increase in Japan's exports to Hungary largely due to the sales of high-value industrial production machinery and telecommunication equipment. This trend was spurred by the establishment of Japan's general trading companies' offices in Hungary during the 1970s. Hungary's modest exports to Japan remained small, dominated by a small range of chemical raw materials, aluminium, and food.

During the first half of the 1980s, Hungary's import from Japan dropped mainly due to the debt crisis and the lack of hard currency necessary for imports. In the same period, Hungary's exports increased, although most of these items were low value-added products keeping the export value at a modest rate. Hungary's exports were dominated by state-owned large and specialized foreign trade companies. In 1986, Japan granted the General System of Preferences (GSP) treatment to Hungary. This preferential treatment was abolished only at the time of Hungary's entry to the European Union in 2004. This gave a further impetus to already growing Hungarian export to Japan. Still, it was again only for one year (in 1988) that a balanced trade could be registered.

2. Bilateral Trade between 1988-2017: Factors and Trends

2.1. Hungary's Exports to Japan

For any small and distant economy trying to increase its exports to Japan from a low level, the first task is to inform the Japanese decision-makers and consumers of the very existence of the country. Several factors helped to establish the knowledge of

the Japanese about Hungary. During the early 1980s, Japan became not only the largest creditor country in the world but also the largest creditor of Hungary. Although indebtedness was a serious bottleneck for Hungary's economic development, at least Japanese banks, and financial institutions gained more knowledge of Hungary. This is important because Japanese companies gain their first set of information about a less-known country through the local branches of Japanese banks, financial institutions or general trading companies. In the mid-1980s the first—albeit few—Japanese companies got involved in direct investment in Hungary and negotiations started with Suzuki Motor Corporation to build a car assembly plant. The announcement in 1990 of the construction of the car factory plant has increased Japan's attention towards Hungary. Needless to say, the political changes in 1988-90 in Eastern Europe also contributed to putting Hungary on the map for more Japanese companies and people than before.

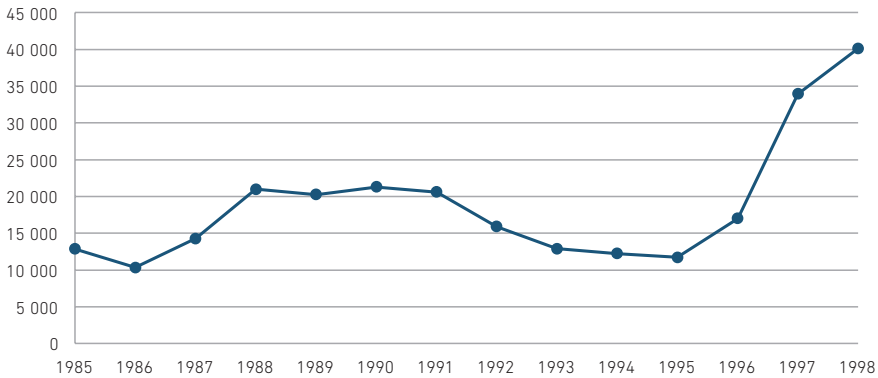
Tourism also played an important role. During the Japanese bubble economy period of the late 1980s, Japanese tourists had robust spending power and returned to Japan from Hungary with souvenirs of Hungarian honey, propolis, traditional folk embroidery, Tokaji wine, Herend porcelain. This gave further ideas for trade and proved that Hungary had some interesting traditions and stories to tell. A story is indeed an important factor in marketing activities inside Japan.

Non-profit oriented relations between the two countries deepened during the 1980s and the early 1990s including the introduction of Japanese language in the formal education in Hungary and a rising number of researchers and engineers having the chance to get fellowships in Japan. The Japan Foundation, the Japan International Cooperation Agency (JICA) and Japan's Official Development Assistance program provided experts, expertise, and funds for cultural, educational and environmental projects. All these activities enhanced the people-to-people relations that are very important in establishing trust between any people or company of the two nations. When starting a new business with a new partner, the Japanese always consider whether the would-be partner (be it the seller or the buyer) is reliable, and whether they could be counted on in the long-term. More direct impressions about Hungarian people even outside the business world are important in this context.

Because of the remarkable changes in the Hungarian Forint's exchange rate and the more consistent data issued by Japan's authorities, exports and imports data are provided in Japanese yen and taken from official statistical sources of Japan. Most of the above factors were enough to maintain the level of Hungarian exports between 1988-1991, as can be seen in Diagram 1.

Diagram 1

Hungary's exports to Japan (Million JPY)



Source: Statistics Japan, Statistics Bureau, Ministry of Internal Affairs and Communications, Japan.
[online] Available form: www.stat.go.jp

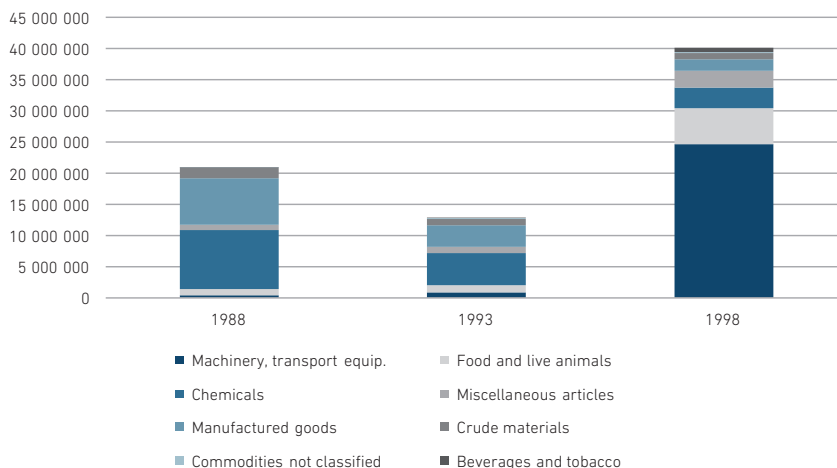
However, the economic transition of the early 1990s had also a negative impact on Hungary's exports as can be seen in the data of 1992-95. The large foreign trade companies lost their markets in Eastern Europe (including the Soviet Union) and disappeared. They were dissolved or privatized (and restarted with a new strategy). Since in most cases these specialized companies had a monopoly or at least an exclusive knowledge in trading with their respective products, their disappearance led to the disappearance of the exporting activity as well.

The closer integration with EU markets and the crisis-ridden economy in the early 1990s made many Hungarian producers focus on better-known markets. Also, the privatization and dissolution of large trading companies led to smaller company sizes lacking the financial strength to start trade with a remote market like Japan. The transnational companies starting activities in Hungary were concerned about sales to the local Hungarian or the regional Central or East European market. For the most of them, Japan was not part of their sales strategy during the 1990s.

Besides the disintegration of specialized companies involved in foreign trade, manufacturing companies faced difficulties in maintaining their production and their access to finance. As a result of the significant industrial restructuring, some products have disappeared from the Hungarian supply available for Japanese importers during earlier decades.

Diagram 2

Principal categories of Hungary's exports to Japan (,000 JPY)



Source: Trade statistics of Japan, Ministry of Finance, Japan.

[online] Available from: www.customs.go.jp

As for the structure of Hungary's exports, between 1988-1993 the fall of chemical products' (organic compounds as well as pharmaceuticals), aluminum, steel, and the exports of other crude materials were the main factors in the fall of Hungarian exports to Japan. However, even if from a very low level, machinery exports started a quick growth led by industrial pumps used for liquids and electrical machinery. Food products showed a rise, meat products in particular.

The remarkable growth of Hungarian exports to Japan started in 1996. This was triggered by several factors. In order to curb the current account deficit, the Hungarian Forint's exchange rate was devalued in 1995 against all foreign currencies which spurred the increase in exports. More importantly, the structure of exports has shifted from raw materials to machinery, parts and to some higher value-added industrial products and this was also visible in the exports to Japan (see Diagram 2). In a matter of only three years, starting at only slightly more than a 10 percent share of all exports in 1995, machinery and parts made up 40 percent of exports to Japan by 1998. This was largely due to new production and export capacities of computer parts and assembled electronic goods, audio and video equipments in particular. Organic chemical compounds and pharmaceuticals showed a further decrease, exports of crude materials stagnated and limited to a narrow range of goods. Food exports shifted to maize (as animal feeding material) and dairy products, while meat products

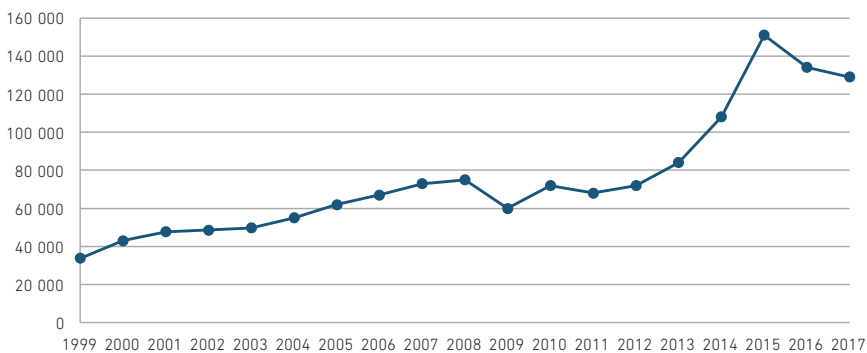
showed only a modest increase. Clothing and footwear showed a rapid rise. A widening of the product range exported to Japan reflected the first efforts of newly formed Hungarian private firms venturing to discover relatively new markets like Japan.

The 2000s saw further growth of Hungarian exports to Japan. By 2008 two-thirds of Hungary's exports to Japan were constituted by machinery, components, spare parts and transport equipment. The volume and diversity of machinery and spare parts exports increased. During the 10 years leading up to 2008 passenger car and—with a smaller total value—car parts exports grew rapidly and continued to constitute a significant portion (roughly one-fifth) of Hungary's exports to Japan in 2008. The electronics industry remained the most important area of exports but shifted from computer parts to assembled computers and office machinery. Scientific and optical measuring equipment—once the pride of Hungarian optical industry—were exported again from the early 2000s.

Chemical products regained some of their earlier importance with the appearance of new export products like hormones or natural dyeing products. Food exports reached roughly 15 percent of total exports to Japan, with a sudden and heavy concentration on pork the imports of which was allowed by Japan's authorities vis-à-vis Hungary in the year 2000. Earlier export items like fruits, vegetables, maize, dairy products all decreased, while honey emerged as the second largest item after pork. An unstable structure of food exports showed that there were several transactions of a short-term nature.

Diagram 3

Hungary's exports to Japan (Million JPY)

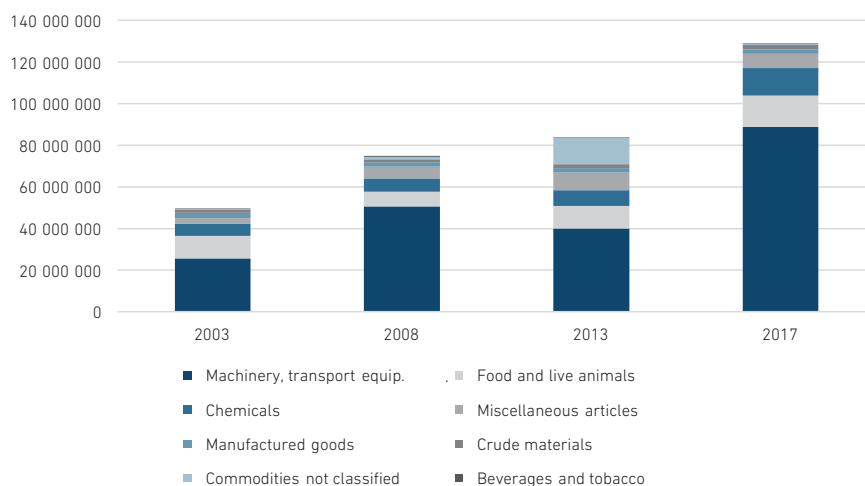


Source: Statistics Japan, Statistics Bureau, Ministry of Internal Affairs and Communications, Japan.
[online] Available form: www.stat.go.jp

Between 2008-2017 the performance of Hungarian exports to Japan showed a mixed picture. After a significant fall in 2009 due to the international crisis, exports returned to the 2008 level in 2010 but fell again in 2011 to the 2006 level. A significant increase can be observed only during 2013-15. While exports were dominated by machinery, equipment, and spare parts, there was a remarkable shift from electronic products to transport machinery. This shift was due to Hungary's long-term process of losing its competitiveness in electronic parts. Also, Japanese companies, shutting down their plants during the years of the crisis, were almost exclusively producers of electronic parts or assembly plants (TDK, Sony, Sanshin). Computers and electronic parts exports halved between 2008-2017, but the exports of higher value-added items of telecom equipment, electrical measuring equipment, and electrical units for industrial equipment remained stable. Therefore, the internal structure of electronics exports changed, too. The share of high-technology products (according to the definition of the OECD) in Hungarian exports rose from 14.5 percent (2000) to 25.3 percent (2009) only to fall to the pre-crisis level of about 20 percent after the crisis (2011-12). Moreover, high-tech exports were concentrated with almost half of them being scientific instruments and close to 22 percent being pharmaceutical goods (Éltető – Völgyi, 2013, p. 22; p. 24).

Diagram 4

Principal categories of Hungary's export to Japan (,000 JPY)



Source: Trade Statistics of Japan, Ministry of Finance, Japan.
[online] Available from: www.customs.go.jp

During the 2010s, besides assembled passenger cars and their parts, car engines entered as one of the most important export items. The exports of chemical products exports showed considerable growth due to the steady increase of both organic chemicals and pharmaceuticals, but still lagged behind food products, just like during the previous two decades. Food exports were dominated by pork and honey, with poultry meat gaining some significance. Candies are to be mentioned as a new successful product group. Hungarian goose feathers (used for filling blankets and pillows) continued to be successful on the Japanese market. Other items of smaller exports value included bags, women's clothing, sporting goods, and toys. Although exports showed a widening variety of manufactured goods (contributing to the export growth of 2013-2015), only a few of them could retain significant exports value compared to 2008.

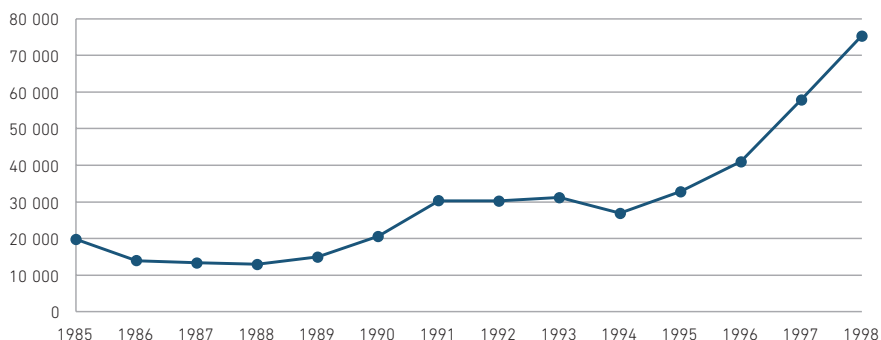
2.2. Hungary's Imports from Japan

Taking the whole period of the 1980s, the value of Japanese exports to Hungary showed a decreasing tendency. The reason for this is to be found in Hungary struggling with a high level of external debt, therefore, having less available foreign exchange to use for import. In 1988, 56 percent of total imports from Japan were machinery, components, spare parts or transport equipment. 55 percent of these products were electronic products led by the video tape recorders and other consumer electronics. Another important product group was machinery used for industrial production. About a quarter of all imports were chemical goods, mainly organic chemicals. The imports of transport equipment and pharmaceuticals were negligible. The remaining 17 percent of imports were mainly scientific and optical instruments, films and other blank recording material like video or audio tapes and textiles (woven fabric).

Between 1988-1993 imports from Japan more than doubled. Starting in 1990, there was a rapid growth in imports mainly due to passenger car imports. While in 1988 less than 400 passenger cars were imported from Japan, in 1993 more than 23 000, making this item by far the largest item in Hungarian imports from Japan, constituting more than half of the total imports in 1993. Besides the disappearance of cars from the Soviet Bloc, this was a period when in Hungary there was no large volume of domestic car assembly. However, the share of electronics in the total imports fell back to only 9 percent, with an import value falling by 25 percent compared to 1988. This was largely due to a drastic fall of video tape recorders and parts for television sets, while the only category in electronics showing an increase was telephone equipment. Parts for industrial machinery and hand tools showed moderate growth. The overall economic recession of the early 1990s in Hungary decelerated import growth of both capital goods from Japan.

Diagram 5

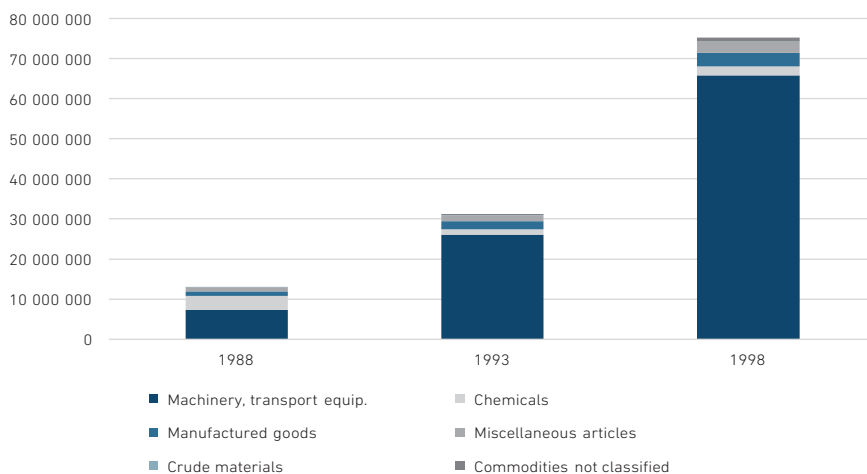
Hungary's imports from Japan (Million JPY)



Source: Statistics Japan, Statistics Bureau, Ministry of Internal Affairs and Communications, Japan.
[online] Available form: www.stat.go.jp

Diagram 6

Principal categories of Hungary's imports from Japan (,000 JPY)



Source: Trade statistics of Japan, Ministry of Finance, Japan.
[online] Available form: www.customs.go.jp

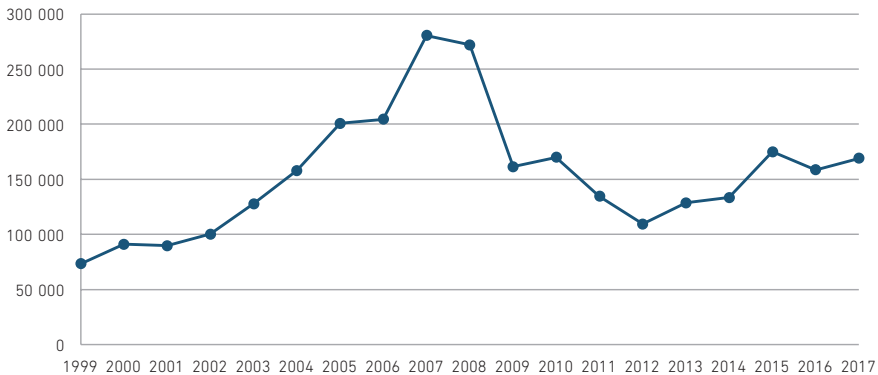
Between 1993-1998 the spectacular rise of capital goods import was the most important new development. A restrictive economic policy of consumption and the appearance and expansion of Japanese manufacturing plants (car and electronic goods' assembly and their parts suppliers) were both important factors. Thus by 1998 electronics returned to a more than one-third share of total imports from Japan this time

dominated by parts (mainly for tv-sets, video equipment, and integrated circuits) and industrial electronic machinery. The most important consumer good import item passenger car showed imports falling to its one-third compared to 1993. At the same time, car engines and industrial machinery became the most important machinery items in imports. The composition of other manufactured products also shifted from consumer goods to capital goods: measuring equipment, paints, aluminum and steel products. Raw materials and food continued to be a negligible part of Hungary's imports from Japan.

Between 1998-2003 imports growth from Japan almost doubled. Machinery, transport equipment, and electronics share stabilized at 85 percent of total imports. Electronics further increased its share to more than half of total imports with integrated circuits, diodes, batteries and accumulators, condensers as leading items—several newly emerging in Hungarian imports from Japan. Consumer electronics fell to a very low level with amplifiers and loudspeakers, the only products with a volume worth mentioning. As a sign of increasing local car manufacturing by Suzuki Motor Corp., imports of combustion engines of cars surpassed that of passenger cars. Trucks that retained steady imports during the 1990s started to fall in terms of numbers imported. Chemicals imports stagnated while the imports of iron and steel goods tripled.

Diagram 7

Hungary's imports from Japan (Million JPY)



Source: Statistics Japan, Statistics Bureau, Ministry of Internal Affairs and Communications, Japan.
[online] Available form: www.stat.go.jp

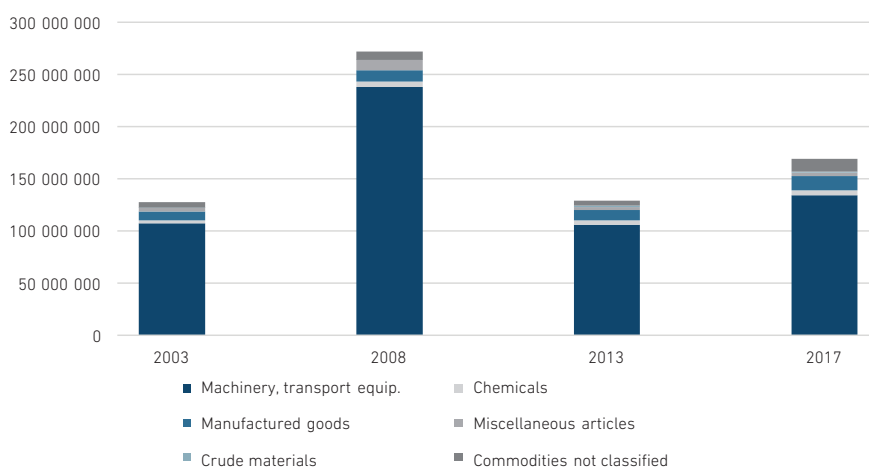
While between 2003-2008 imports from Japan more than doubled, electronics imports lost weight and diversity due to the recovery of other items like passenger cars and office machines. The number of imported cars surpassed 10 000 reflecting a

widening scope of consumer demand and easily available consumer credit in the mid-2000s for buying new cars. After a long period of falling sales of consumer goods, the trend reversed to a growth of import of these products.

Beginning in 2008, the international crisis dealt a serious blow to imports from Japan. In 2013 the value of total imports was slightly less than half of the value in 2008, standing only at the level of 2003. Several Japanese manufacturing affiliates closed down operations in Hungary. Although these were mainly electronics products' manufacturing capacities, other plants also decreased the volume of operations. More than half of the import decrease in the period of 2008-2013 was due to electronics, more specifically, semiconductors responsible for roughly 30 percent (!) of the fall of total imports. As a stronghold of car assembly and parts manufacturing, Hungary was heavily affected by the crisis. Imports of passenger motor cars in 2013 constituted only 20 percent of the level of 2008. Chemical products and pump equipment for industrial use did not suffer such a decline. Although crude materials were negligible for many years, in 2013 this imported item crossed 1 percent of total imports from Japan, solely due to the imports of synthetic rubber. Looking at the 2013 data, the almost complete lack of consumer goods in imports from Japan is quite astonishing. Hungarian consumers opted for buying less and cheaper durable consumer goods during the recovery after the crisis.

Diagram 8

Principal categories of Hungary's imports from Japan (,000 JPY)



Source: Trade statistics of Japan, Ministry of Finance, Japan.
[online] Available form: www.customs.go.jp

It is remarkable that even after 2013 there was only a slow growth in imports from Japan. In 2017 the total imports were 170 billion yen, which is roughly the level of 2004. An important reason for this is that the share of electronics imports started to fall already before the crisis, reflecting a longer-term tendency. Semiconductor imports, as well as other electronic parts and electric machinery, constituted only 14 percent of imports in 2017. Between 2013-2017 the strong growth of passenger cars imports was remarkable, and there was also a recovery of car parts and car engines imports. In 2017, transport equipment and their parts made up 30 percent of imports from Japan, and this excluded car engines that had a further 14 percent share of total imports. Industrial machinery constituted about one-fifth of imports.

Industrial raw materials like rock-wool and carbon fiber entered as a new item in Hungary's imports from Japan with ongoing imports of iron and steel products, as well as synthetic rubber. Vehicle tyres and tubes imports doubled in the 2013-2017 period. Beverages made an appearance in imports as a result of the efforts of Japanese authorities to popularize traditional Japanese beverages abroad. Since the early 2000s, 5-10 percent of all imports from Japan have been classified as re-exports. These products are produced outside Japan shipped to Japan and subsequently re-exported to Hungary.

3. Practices in Trading with Japan

3.1. Hungarian Companies' Exports to Japan: The Players

For many years until the early 1990s, there were only large state-owned trading companies exporting to Japan from Hungary. This era was characterized by the domination of large trading companies (the so-called *sogo shosha*) of Japan. Since the early 1990s with the dissolution of foreign trade monopolies, many other companies including trading as well as manufacturing companies have tried to establish export business with Japanese importers. Hungarian business people formerly working at large trading companies have often formed new companies trying to specialize in already traded goods known and trusted by the Japanese importing partner and capitalize on the accumulated product knowledge and personal network in Japan. These efforts were partly successful, but had two important preconditions, namely to continue the stable supply of products and to maintain direct personal relations between the Hungarian persons in charge and the Japanese counterparts. In the case of chemical goods and food there were several success stories.

The number of those with relevant contacts with Japanese importers is limited, and there are also ex-diplomats entering the business trying to widen the scope of the traded goods beyond only one product group. A few of the long-term Hungarian residents in Japan have also ventured to support Hungarian exports to Japan. A key challenge is to have a good knowledge of the Hungarian supply together with a good and reliable pool of Japanese importers. Because of the importance of personal networks, the relatively long process of launching business and of mastering the Japanese language, the job of creating business is, in fact, a permanent consulting work. Therefore, there are not only trading but also purely consulting companies helping to create and maintain Hungarian exports to Japan.

As the Hungarian industry progressed in restructuring there were also new producers appearing with some competitive products, although their scope was not wide considering the Japanese market. These new companies rely either on the small trading, consulting companies or on the Hungarian offices of Japan's large trading companies (sogo shosha).

Japan's large trading companies have been traditionally active in almost exclusively large volume businesses transactions. It was in the period of the 1990s, when they had the largest number of affiliate offices in Hungary (Mitsubishi, Mitsui, Itochu, Sumitomo, Kanematsu). Regarding Hungary's export to Japan, some of these affiliate offices have specialized in certain industries and customers. Mitsui and Mitsubishi have been strong in chemical raw materials' trading, Itochu is closely linked with Suzuki Hungary's activity. To promote these activities, some Japanese logistics companies have also opened offices in Hungary (EurasiaSped, Yusen Logistics, and Nippon Express). However, no Japanese bank has any Hungarian affiliate, instead the Hungary-based Japanese customers are supported by the Vienna, Frankfurt or Dusseldorf offices.

There are only very few Hungarian companies able to run a local office in Japan (Graphisoft, Bonafarm's Pick Szeged, Richter Gedeon) and to operate sales and marketing activities in Japan. These companies do not only have the necessary financial means to operate a local office, but also have high-value-added products that have been successfully sold on Japan's market for a long period.

A significant part of Hungary's food exports is operated by Suzuki Business Co. Ltd., an affiliate company of Suzuki Motor Corporation involved in various businesses not related to passenger car production. The companies 'special sales' division is involved in importing Hungarian products from Hungary: mostly wine and honey. The wide

selection of red, white, sparkling and dessert wines are sold also on the internet, a booming segment of retail activities in Japan.

A less successful case is the Hungarian National Trading House's activity. There were several reasons for this. Most importantly, the employed staff had almost no experience in doing business with Japan and this precluded high sales. The idea of unifying small and medium-sized quality food producers under one brand 'Áldomás' can work on certain markets, but only if there are partners on the importing country's side and products fit the requirements of the targeted market. Another effort of the Hungarian government was the so-called Eastern Opening Policy of the early 2010s targeting the diversification of Hungarian exports to reduce the too strong reliance on EU markets. However, the geographical scope of this policy was constrained to China and Central Asia with no significant efforts to increase exports to Japan. Any focus on exports to China can make the Japanese importers fear that the supply is diverted to the Chinese market with an obviously increasing purchasing power of consumers.

In the year 2018, there was an important bilateral trade policy achievement. Concerning imports from Hungary Japan has changed the regulation for avian influenza-related counter-measures. From October 2018, regarding the avian influenza outbreak, only those poultry products will be banned to be exported to Japan which originate from farms in the county where avian influenza cases have been registered. Earlier for the whole of Hungary, an import ban had been introduced regardless of the place of the disease's outbreak. Negotiations for a similarly improved regulation for pig meat and other pork products have also been started but the few outbreaks of African swine fever cases (wild boars) in April 2018 led to a stoppage of negotiations. Currently, it is on the agenda to convince the Japanese authorities about the safety of Hungarian pork.

3.1.1. Key Factors of Successful Exports to Japan

European businesspeople tend to think that once a product itself is successful on the European market, it is a guarantee for success in Japan. This sometimes leads them to boast too easily about the product which is not sympathetic for the Japanese and therefore should be avoided for sure. Standardized quality and reliable volume of supply are probably the two most important factors for a long-term business. If these are provided, the Japanese buyers continue with the business even if there are disputes arising between the two sides about price or minor quality problems.

The preparation of the first shipment of any product takes considerable time and it needs patience. The Japanese side usually needs much more time to reach a decision due to the internal management structure of their companies. Before any decision, the Japanese side requests detailed information especially about the quality features of the product and the production process. For any questions, it is advisable to provide a quick answer even if the content of the answer does not fully cover the question. This leads to a more intense and fragmented communication, but the higher number of emails and phone calls pays back in the form of higher trust by the Japanese partner. In the case of food and beverages, it is advisable to find out whether all ingredients are allowed to be imported. Japan has strict rules for additives in food and beverages products.

In the case of consumer goods, it is better to offer several varieties of the same product. Besides the question of higher volumes, this is also necessary for entering retail chains demanding more than one variety of the same product. Usually, the Japanese importer asks to explain the uniqueness of the product, because there is strong competition on the Japanese market and the wholesale traders are reluctant to switch to another competitor without detailed and convincing reasons. Entering the market with a flagship product can provide chances for paving the way for further products of roughly the same category. The most important example for that has been the pork of the Mangalica type pig that prepared the way for larger exports of more conventional pork. Similarly, being the first brand the Japanese became familiar with, the Herend porcelain made possible the introduction of Zsolnay and Hollóháza porcelain as well. The Japanese have high respect for manufacturing excellence, the proof of which is that even though Haribo and PEZ are not Hungarian brands their production in Hungary led to the view that Hungary can offer high-quality candy products.

Entering the Japanese market with a new product is not an easy challenge in terms of marketing, either. Japan still has a relatively wide circulation of printed press. Instead of national newspapers, professional magazines specialized in a certain industry or product group are read by retailers, restaurant and hotel chains are better tools for introducing a new product. As for online marketing, blogs and opinion leaders can be used in the initial period. All these efforts are made by the importer or even more by the wholesale trader and in most cases, they do not demand financial assistance from the producer or its exporter. However, they request detailed information about the product from the maker to inform the wholesalers, the retail chains or—more seldom—the consumers.

The Japanese consider it important to know which country's product they are buying. Thus, it is necessary to provide arguments to answer the question: why buy specifically from Hungary? In many cases, it is advisable to provide general information about Hungary. Importers might have the knowledge because of their international experience, but most Japanese companies and people rarely hear about Hungary. Since the Cold War era was longer than Hungary's membership in the European Union, it should be clarified that Hungary is part of the EU, even though it is not using the euro currency inside the country. The local industrial and cultural traditions (if any) concerning the product to be marketed is also information to be shared. Any interesting background story about the product should be also used as the content of marketing.

The importer company's commitment is also crucial in starting and maintaining imports. The exporting company must value the efforts made by the importer in an environment of strict import regulations. Pushing Japanese importers too eagerly to buy leads to smaller success compared to the cases when the Japanese importer makes the first step when sending an inquiry to the exporting company.

Meeting the importer in person is crucial. Trust can be won more easily this way. The Japanese prefer seeing the face of the producer or its reliable trade representative agent before and even after starting the business. While this may be costly, it can secure long-term business. If online video conferences are offered these should be accepted and taken as a good opportunity because not all of the Japanese companies allow their employees to do this.

There are diverse experiences concerning sales contracts. There are Japanese importers who prefer not to conclude a framework agreement for sales and instead send a procurement plan (including volumes and prices) and if it is accepted by the seller, the plan functions as an agreement on sales. On top of that, purchase orders for the deliveries are sent to the seller. However, there are other importers that are ready to conclude a framework agreement for deliveries in order to specify payments terms and technical specifications. There are also importers that prefer to conclude a separate sales contract for each and every shipment.

It is better not to demand too strict payment terms because this is easily understood by the Japanese as a sign of distrust. Japanese importers are very reliable when it comes to payment. They keep the agreed deadlines and terms. In the case of smaller importers, there are rare cases of long delays or non-payment. Since transportation costs are much lower in Hungary compared to Japan, transportation services are

preferably ordered in Hungary and not from Japan. Usually, exports are done on CFR or CIF basis. Experiences show that it is better if the Japanese importer (instead of the Hungarian seller) insures the shipment because in case of any damage or theft, the procedure for restitution is much easier and faster. Contrary to the earlier decades of USD based transactions, in the last two decades, most exports have been denominated in euro, because its exchange rate is considered more stable than that of the US Dollar. This is quite favorable for Hungarian exporters, since the Hungarian Forint shows a slow but steady depreciation against the euro.

Due to the segmented and geographically dispersed Japanese market, business partners should clarify which market segment and which geographical area inside Japan is targeted. If this is clearly understood, it helps the exporting company to judge the perspective of the business in terms of volume, price and whether it should grant exclusivity to the importer. Exclusive rights can be a sensitive issue. Although Japanese importers do not demand a written agreement to grant exclusive buying rights for them, they still require the exporter not to enter into business with other importers. To avoid disputes it is better to clarify the question of exclusivity in advance.

As for more specific features of intangible goods' (like software) sales to Japan, it is more realistic if the product in question has a successful track record in one or more other highly industrialized countries. Localization of software is crucial even if that is a long process due to translation and compatibility issues. Setting up a local representative office or a joint venture with a local partner is hardly avoidable because Japanese buyers need local technical support to feel safe about the introduction of a new software solution.

3.1.2. What are the Bottlenecks in Increasing Exports?

For geopolitical reasons after World War II, Japan was allowed to maintain relatively protectionist import regulations if compared to other industrialized countries. It is only since the 1990s that Japan has concluded free-trade agreements with some South East Asian and Latin-American countries. Nevertheless, Japan has still a high number of non-tariff regulations that hinder imports.

Food and beverages are regulated by complex and restrictive regulations concerning ingredients, sanitary and packaging. Similarly to other non-European countries, Japan applies strict regulations for avian influenza and African swine fever—to name just the two most frequent animal diseases. If there is only one case of an outbreak of

such diseases, the whole imports of that product are prohibited until the authorities of the two countries agree on lifting the import ban. The condition for that is also regulated in detail and needs extended negotiations. Exporting companies often think that it is the importer that is so strict about these rules, and communication breaks down because of distrust, while in fact, the problem is the actual import regulation. Also, this detailed regulatory system created a situation where the number of Japanese importers of the product or product group is relatively small with a country of more than 120 million people, because there are only a few companies that have the capacity to learn and follow the detailed regulations and find loopholes in them in order to start import activities. With this comes the challenge for the exporting company to find the firms that can really handle the administrative side of the product's import.

Japanese people prefer to buy products made in Japan even if they are more expensive than the same products imported. While for final consumer goods imports this is a bottleneck, for raw materials, ingredients, bulk package products this is of a lesser relevance, since the consumer is not necessarily informed about the country of origin, while the importer and other players in the distribution channel are interested in importing cheaper goods.

While Japan seems to be a closed market from the outside, it may come as a surprise how intense the competition is on the Japanese market. Due to some market entry barriers, those already on the market are usually highly competitive companies doing their best to remain on the market. Due to the slow growth of the Japanese economy, and a relatively stable industrial and consumer structure, it is not an easy task to convince importers to start buying the same product from a new source. The Japanese are very loyal to suppliers, they do not switch easily even if it would be reasonable.

The final (retail or consumer) price of the product in Japan can be very high if compared to the original ex-works price. High transport costs to such a geographically far-away country is certainly one of the reasons for this but not the only one. The Japanese distribution system has more levels than most other countries. In many cases, the importer sells the product not directly to a wholesale or retail company, but to a so-called distribution company which sells to a wholesale company and only then the product reaches the retail level. Recently, some Japanese wholesale companies or even retail chains have tried to make contact directly with foreign producers (at trade fairs or by simply sending emails), which is basically good news for exporters. However, it may turn out that this new kind of partner does not have the knowledge and experience to import the products.

While Japan is a huge market, it is often surprising that the bulk packaging units they are requesting are relatively small. In the case of consumer goods, one has to understand that the number of retail stores is very high with each of them dealing with only smaller order volumes. Many of the shops are on narrow streets that can be used by vans suitable only for smaller carton sizes. As for the consumer package unit, the size is again smaller than the usual one in Europe. The Japanese eat less in volume and wider in variety. Most of them prefer to buy smaller package sizes. Large packages can be accepted by the importer if the products are re-packed in smaller units in Japan.

Language differences can be a barrier to business. English is taught for all students in Japan, but oral English conversation is still not a strong skill among the Japanese. Written confirmation and thorough clarification of details are important. Communicating in Japanese can help business but at the same time, it can raise the expectations of the importers towards the seller in non-cultural aspects (like technical specifications), as well. It is important to note that there are more and more foreigners working in Japan, slowly entering positions in international trade and having a slightly different business culture to that of the Japanese.

3.2. Hungary's Imports from Japan – Players and Experiences

Hungary's imports from Japan has a stronger concentration on machinery, spare parts, and components, most of them being capital goods. This is no wonder, since the Japanese supply of raw materials and food, beverages do not even meet the domestic demand, allowing fewer chances to export them.

In many cases, Hungary's imports flow from a Japanese producer or trading company to an industrial plant located in Hungary. In the case of imports of machinery used for industrial production, the Japanese producer does not directly export to Hungary. Rather, it uses an affiliated Japanese trading company specialized on trading with the machinery of that producers' Japanese and foreign plants. Exports and imports of machinery are executed by a large Japanese trading company (sogo shosha), if it has shares in the exporting (supplier) company or the importing industrial plant. If the Japanese producer of the machinery does not have an affiliated trading company or ownership relations with a large Japanese trading company, it may rely on a local European trading company specialized on machinery trading in Hungary or in another EU country, since there is free trade inside the EU. There are usually similar patterns for trading with parts and components.

The business inside Japanese transnational companies (a producer in Japan and an industrial plant in Hungary) is handled relatively smoothly because of the common understanding of technology and business issues. This is important because a just-in-time supply of parts and components is crucial. Any problem of not keeping deadlines can increase costs of logistics and production time due to the higher costs and longer transport time from Japan. When it comes to a Europe- or Hungary-based representative importing company, the after-sales, maintenance services are very important, because Japanese experts cannot easily visit Hungary. They have to rely on local expertise to solve the arising problems of machinery.

Japanese producers do not need special marketing efforts to convince Hungarian importers about the quality of their products. Hungarians, in general, have a positive view of not only the quality of Japanese products, but also their longevity. There is more concern about prices, but the reliability of Japanese goods can compensate for the higher price. Although Japanese brands are increasingly produced outside Japan and subsequently exported to Hungary, a product really made in Japan has an added value for most people in Hungary.

In order to differentiate exports and create a more sophisticated view of Japan abroad, in recent years the Japanese government authorities started to promote Japanese food, drinks, gastronomy, and cultural content worldwide. Exhibitions and promotion events of Japanese rice, food ingredients, meals, and traditional Japanese beverages are funded partly by Japanese government agencies. There are two important challenges to mention here. Japanese goods are higher in price, therefore, identifying the consumer segment ready and able to buy these products should be undertaken meticulously. Finding the importer can be an even more difficult task, since most of the trading companies in Hungary do not yet have the necessary knowledge of Japanese food or beverages. Education for the wider public, tasting events, training of local salespersons are all crucial tasks. This would help to increase direct imports from Japan instead of relying purely on German and Austrian importer and distribution companies buying from Japan and then selling to Hungarian trading companies. As for Japanese cultural products, it is easier to find a larger market due to a relatively large number of young people familiar with the manga and anime culture. Having experienced a significant drop in imports from Japan due to the international crisis starting in 2008, imports from Japan would be more sustainable if they were more diversified. This could be achieved if Japanese companies gained more knowledge about government procurement. The absence of Japanese bank affiliates in Hungary and the limited number of large Japanese trading companies' representative offices is indirectly hindering the growth of imports from Japan. More activity

by the Chamber of Japanese companies in Hungary (Shokokai) would contribute to new businesses. Increasing imports from Japan would also contribute to more direct investments at a later stage.

4. Perspectives Opening-Up due to the EU-Japan Economic Partnership Agreement (EPA)

4.1. Background

During the 1980s there were strongly disputed trade policy issues between Japan and the European Community (EC) with a focus on alleged dumping by Japanese companies on the EC market, and impediments experienced by the EC's companies in accessing Japan's market. During the 1990s consultation bodies were set up to discuss these negative factors. As for an easier acceptance of industrial standards, the Agreement on Mutual Recognition between Japan and the EU came into effect in January 2002 (MOFA, 2018). In 2003, an Agreement concerning cooperation on anti-competitive activities was also concluded. As for trade liberalization, a more concrete negotiation process was formalized and started in 2012, with the aim to conclude a comprehensive agreement of economic co-operation. The negotiations between Japan and the EU were accelerated in 2017 by the protectionism of the Trump administration signaled by the United States announcing the withdrawal from the Trans-Pacific Partnership originally signed in February 2016. The conclusion of the EU-South Korea Free Trade Agreement (that came into effect in 2011 and was extended in scope in 2016) served also an inspiration for both Japan and the EU.

The proposed text of the EU-Japan EPA was finalized in December 2017. At the EU-Japan Summit in Tokyo in July 2018, Presidents Jean-Claude Juncker, Donald Tusk and Japanese Prime Minister Shinzo Abe signed the EU-Japan Economic Partnership Agreement (EPA). According to the official press release; "The trade agreement is the biggest ever negotiated by the EU and will create an open trade zone covering over 600 million people" (European Commission, 2018a). The Japan-EU Economic Partnership Agreement was signed by the European Parliament as well as by the Japanese Diet in December 2018. The EPA entered into force on February 1, 2019. Issues of investment protection and the related dispute resolution will be regulated in a separate agreement still under negotiation.

4.2. An Overview of Trade Liberalization Measures and Their Impact

"The EU has liberalized 99 percent of tariff lines and 100 percent of imports and Japan 97 percent of tariff lines and 99 percent of imports. However, on the 3 percent of tariff lines not fully liberalized, Japan has given significant concessions in terms of tariff rate quotas and/or tariff reductions" (European Union, 2008, p. 1).

As for the EU countries' export opportunities, the most important achievement of the EPA is an unprecedented import liberalization of agricultural and food products on behalf of Japan. (European Commission, 2018b) In case of certain tariff lines, tariff rates are reduced instantly to 0 percent, but there is a wide range of goods where the reduction is done gradually in 3 to 20 years depending on the product. According to an early assessment issued by the EU, "The largest increases in EU exports to Japan in absolute and relative terms are in the dairy and in the textile, apparel and leather sectors, followed by processed foods, motor vehicles and chemicals which are expected to experience substantial increase in exports both in absolute and relative terms. (...) In agriculture, the meat sector comes as the third largest benefactor" (European Union, 2018, p. 50).

Japan is upholding quotas (with slowly increasing volume levels) with decreasing tariff rates for the following product groups: wheat, wheat products, barley, barley products, doughs, cake mixes, malt, coffee, tea mixes, several food preparations for confectionery, glucose, cocoa powder, sugar, starch, some types of prepared edible fats and oils, whey, butter, milk powder, condensed milk, soft cheeses, raw silk. Safeguard measures for pork, whey protein concentrate, whey powder, fresh oranges, racehorses can be introduced. This means that if import volumes exceed a given level (regulated in the EPA), tariffs higher than the reduced rate can be introduced for a year or multiple years. However, these tariff rates cannot be higher than those before the EPA came into effect. There are only three product groups (seaweed, rice and raw hides, skins) for which Japan will not take further liberalizations measures.

The EPA includes measures to ease approval and permission procedures for products exported to Japan. Perhaps most importantly, sanitary and phytosanitary certificates of Japan and the EU will be unified. The EU and Japan "are required to ensure that the emergency measures are not maintained without scientific evidence" (European Union, 2018, p. 26). At the same time, there is no loosening of hormone-treated and GMO products.

“European cars will be subject to the same requirements in the EU and Japan and will not need to be tested and certified again when exported to Japan” (European Union, 2018, p. 24). There are detailed regulations for rules of origin and related procedures. As for anti-dumping procedures, dispute settlement, subsidies’ regulation the existing GATT/WTO rules apply for trade between the EU and Japan.

A simpler mutual acknowledgment of global as well as Japan’s specific industrial and agricultural standards has also been agreed upon. A partial opening of Japan’s procurement market might also have a positive impact on exports of construction-related materials. “With regard to new market access, European companies will gain non-discriminatory access to the procurement of 87 sub-central entities in the hospital and academic sectors, and of energy providers in 29 Japanese regions. The agreement also includes non-discriminatory access to the procurement of all so-called “core cities”, which is a specific class of municipalities of Japan with a population ranging between 200.000 and 500.000 inhabitants. (...) A very important achievement is that Japan has agreed to grant European companies access to all procurement in the railway’s sector (...) The agreement also provides access to the procurement of a number of services, including telecommunication and insurance” (European Union, 2018, p. 34).

Japan and the EU also agreed “to contribute to creating an environment of trust and confidence in the use of electronic commerce and to promote electronic commerce between the Parties (...) and shall not impose customs duties on electronic transmissions” (European Commission, 2018b, p. 285; p. 288).

The EU will approve eight geographical indicators (GI) for Japanese alcoholic beverages (including the word ‘Nihonshu’ meaning Japanese Sake) and GIs for further 48 products (various kinds of meat, fish, fruits, vegetables, tea, and soft drinks). In exchange, Japan will recognize their GIs for 205 high-quality European agricultural products, therefore only these products could be sold under their name on the Japanese market.

As for the import liberalization by the EU, the most important merit for Japan is a relatively short period agreed to reduce to zero percent the 10 percent duties for cars (in a 7-year period) and also for buses, trucks and special purpose vehicles (reducing their double-digit tariff rates to zero percent in 7 to 12 years in usual cases). Remaining duties (usually between 3 to 5 percent) for vehicle parts’ imports will be abolished in 3 to 5 years. This will obviously help Japanese car manufacturing companies in Europe. Other industrial goods to be liberalized by the EU are printing inks,

rubber products, aluminum alloys, titanium and its alloys, footwear, air-conditioners, machine tools, electric motors, optical lenses. It is important to note that most of these are very narrow product categories, while all other products' trade was liberalized earlier.

As for agricultural and food products, the EU does not further liberalize the import regulations for rice, rice products, and seaweed, while the liberalization is limited for sugar beet, sugar cane, extracts of coffee, tea and maté, grape juice, grape must, a smaller range of fresh vegetables (including tomato and cucumber) and a wider range of fresh fruits.

If the United Kingdom leaves the European Union, the most significant impact on trade relations will be felt by local Japanese car assembly plants, because "three Japanese car manufacturers (Honda, Nissan, and Toyota) now make almost half of the 1.67 million cars produced in the UK. The majority of those vehicles are exported to the rest of the European market. For an industry based on a high volume/low-profit business model, the main concerns are the reintroduction of border-controls as well as tariffs and non-tariffs barriers post-Brexit" (Angelescu, 2018, p. 3). Visiting Japan in 2017, the UK's prime minister "conveyed the message that it would like to apply the provisions of the EU-Japan EPA post-Brexit until the two sides can negotiate a separate bilateral FTA" (Angelescu, 2018, p. 19). The long-term loyalty of Japanese partners is reflected by the fact that Japanese companies do not rush to relocate their investments away from the United Kingdom. Also, Japan and the United Kingdom have very a friendly and improving political and defense cooperation. However, the UK cannot legally negotiate separate FTAs until it is an EU member state. "Consequently, during Prime Minister May's visit to Tokyo in 2017, the UK and Japan signed a Joint Declaration on Prosperity Cooperation that stipulates the creation of a new framework of cooperation on economic matters. This framework includes enhanced ministerial engagement, the creation of a trade and investment working group to enhance future trade and investment relations and improve market access, as well as a series of dialogues on a wide range of issues including industrial policy, science and technology, nuclear matters, climate change, health, and even culture" (Angelescu, 2018, p. 19). The UK has indicated its interest in joining TPP as an alternative to negotiating separate FTAs with all its parties, Japan included (Angelescu, 2018, p. 20).

4.3. The Impact of EPA on the Hungary-Japan Trade

More specifically, for Hungary the most important development is that customs duties (of 4.3 percent on average) of pork will fall promptly to 2.2 percent and then decrease to 0 percent gradually during the next 10 years. The so-called gateway price system (with imports permitted only above a certain per kg price) for unprocessed pork will remain in effect but will be gradually reduced and abolished when tariffs will be reduced to zero (in 10 years). After 10 years of gradual reduction, most of the processed pork products will enjoy a 0 percent tariff rate instead of the current 8.5 percent. Sausages will enjoy a quicker (5 year) tariff reduction period from the current level of 10 percent. For poultry (duck, chicken, and turkey) meat a 10-year gradual reduction of tariffs is agreed to start from around 10 percent (depending on more specified product). Close to 40 percent high tariff rates for beef will be reduced gradually to 9 percent, with beef tongue—a Hungarian export product—to be reduced to 0 percent from the current 12.8 percent rate. It is important to note here that for pork, beef, dairy products, potato starch and sugar, Japan will grant at least the same treatment as for her other free-trade partner countries.

Japan's import tariff rates will be instantly abolished for most of the frozen fruits and vegetables. The 25.5 percent tariff rate for natural honey will be reduced gradually to zero in 7 years. In a similar fashion, the 25 percent tariff rate for candies and the 10 percent tariff rate for chocolates will be abolished in 10 years. Wine and sparkling wine make up 40 percent of the EU's exports to Japan and these products' customs duty of an average 15 percent will be promptly abolished when EPA takes effect, but this is less important for Hungary, which has relatively small volumes of wine exports. For fashion goods and shoes, a 5 to 10-year tariff rate reduction period is scheduled.

In the case of Hungary's Tokaji (dessert wine) and some of the pálinka type alcohol spirits' name will enjoy this protection (European Commission, 2018b). While Tokaji wine has a long history of its exports to Japan, pálinka type alcohol spirits face challenges of regulatory issues as well as their distant mix of sweetness and strength differing from the taste of most Japanese consumers.

Most of the tariff reductions will be executed gradually, therefore Hungary's exports will enjoy a gradual improvement of price competitiveness vis-à-vis Japan's other trading partners (in particular for food and agricultural products of Thailand, Peru, Mexico, Chile and New Zealand already having free trade agreements with Japan (except for New Zealand) and participating—with the exception of Thailand—in the

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP also known as TPP11 with member countries). The faster liberalization of higher value-added products may promote the expansion of Hungarian export. Competition between EU countries may become more intense due to expectations arising from a liberalized trade. Japanese companies operating local plants in Hungary will certainly enjoy the advantages of the EPA.

5. Conclusion

Hungarian exports to Japan underwent a major restructuring phase during the 1990s moving away from low-value-added raw materials to higher value-added (but mostly not high-tech) parts and machinery. These developments reflected industrial restructuring, company-level changes in exporting activities and Japanese-affiliated companies' re-exporting activity. Since the early 2000s, the scope of exported products had widened thanks to the emerging food and re-emerging chemical products. With product diversification and economic policies favorable to exports, the international crisis in 2018 caused only a temporary halt in the increasing Hungarian export. This provides a foundation to utilize opportunities the EU-Japan EPA creates for Hungary as an EU-member.

Hungary's import from Japan came to be increasingly dominated by capital goods (machinery, equipment, and parts) mostly used for the production of electronic goods and later on for cars or car components. After 3-5 years of imports, some of the imported consumer goods or raw materials were started to be produced in Hungary. Decreasing import from Japan can be partly explained by this pattern of shifting to local production, but Japan's competitors also took over markets especially in the electronics industry.

The EU-Japan EPA will provide further opportunities to increase trade between Hungary and Japan. However, there is a lot to learn from the practices and accumulated experiences of actual business transactions, because lower tariffs and easier administrative procedures do not in themselves guarantee the further expansion of bilateral trade.

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Japan and Southeast Asia (ASEAN)

János Vándor

1. Introduction

After some turbulent decades the Japanese-Southeast Asian economic and political relations reached the stage where the parties could base their ties on mutual respect and interest. As the miraculous economy of the 1960s and 1970s, Japan has slipped back to the otherwise very enviable position of 'one of the leading industrial powers' and it has been compelled but also capable to build up a really working relationship with the most prominent emerging regional organization, the ASEAN. In order to mirror the situation of the parties it can be mentioned that Japan is the third largest economy in the world (with a GDP of USD 4,872 billion) while the combined strength of ASEAN is about USD 2,767 billion¹.

Still, the economic and especially production-based cooperation of the two sides cannot be called the collaboration of equals, although it is much more balanced than it used to be. Facing acute economic problems on the home front and lagging behind the USA and China, while racing with some other important competitors (the EU, some emerging markets like South Korea, India, etc.) Japan on the global scene has recognized that in order to stabilize its international position, it must further strengthen its economic and commercial partnership with the members of ASEAN, otherwise its standing among the main economies will further deteriorate. The time is ripe for such ties, as the members of ASEAN should also be eager to fend off the very heavy domination of China and also of the backtracking USA.

Mutual interests can prevail, but closer ties require some more understanding and modified behavior on the Japanese, and also more flexibility on the ASEAN side.

¹ On the World Bank list quoted the member states of ASEAN occupy the following places: Indonesia: 16; Thailand: 25; Singapore: 36; Malaysia: 37; the Philippines: 38; Vietnam: 45; Myanmar: 72; Cambodia: 107; Lao PDR: 116; Brunei Darussalam: 132 (World Bank, 2018).

This paper attempts to introduce and find the answers to some of the relevant issues of these bilateral ties.

2. The Background

2.1. Japan and Southeast Asia²

Until the mid-19th century, Japan not only closed its ports to foreigners but also cut itself off from the rest of the world. It cannot be said that historically Imperial Japan was not interested in its wider environment, but it rarely ventured too far from its core islands. One of the rare occasions when pre-Meiji Japan aspired to extend its territory and targeted Korea, but this proved to be a failure.³ All through the earlier centuries, the power-holders of Japan were aware of the outer world and mainly of the situation in East Asia. There are no indications that up till the modernization of the state in the second half of the 19th century, the Japanese—unlike the Chinese—made serious attempts to explore faraway territories and peoples. The successes of the First Sino-Japanese War (1895) and the Russian-Japanese War (1905) gave Japan the appetite for territorial growth in the form of colonization. The changes can be understood only if it is taken into consideration that in the second half of the 19th century Asian power relations had been radically changed mainly due to the arrival of the Americans and to the rise of the Empire as one of the foremost industrial and military powers of the continent. In no way defending Japanese imperialism but realistically interpreting the conditions required for the running of a modern economy, it was not surprising that the military leaders strived for expanding the boundaries of the Empire in order to acquire the necessary elements for further strengthening its political and military muscle.⁴ In the 1930s, we could already see the intervention of the Empire on the continent when China had been invaded, partially occupied and when Manchukuo was created.

² The historical phases of the Japan-Southeast Asia ties constantly constitute the subject of scholarly research. Instead of repeating even the most basic elements of this period, we turn our attention to the Japanese-ASEAN relations in general and, within this context, we refer to just a couple of factors that are rarely mentioned in scholarly literature but significantly contribute to the formation of these bilateral ties.

³ Toyotomi Hideyoshi carried out two military campaigns on the Korean peninsula between 1592 and 1598, but could not defeat the Chinese and Korean forces. After this there were no significant efforts made until the First Sino-Japanese War in the late 19th century to venture into farther areas.

⁴ Economic considerations played an important role in the implementation of Japanese imperialistic aims, and in addition to such thinking 'simple' great power aspirations and racial explanations can be also found among the innermost elements of Japan's foreign policy in the inter-war years. Naturally, nothing can justify the savage and inhuman crimes committed by the Japanese.

These events were followed by the occupation of the Southeast Asian colonies (of the European powers) after the outbreak of the Second World War in the Pacific (1941). That was the first time that Japan politically and militarily intervened in Southeast Asia and started to regard this region as vital for its own survival. The idea of incorporating this area into the Japanese sphere of influence had been worked out earlier, but its realization was made possible only with the general weakening and the expulsion of the former colonizers from Southeast Asia. The arrival of the Japanese was supplemented with the idea of the Greater East Asia Co-Prosperity Sphere.⁵ Tokyo tried to sell this idea as the facilitation of the liberation of the local dependent territories from colonial rule, but in reality the Japanese served local interests only as long as it served theirs. After its defeat, imperial Japan had to withdraw from the region.

This first encounter of Japan and the region led to interesting consequences. Some of the local anti-colonial (nationalistic) forces greeted the arrival of the Japanese and considered them as real liberators. In other parts of the region they were treated as enemies.⁶ Approaching the end of the war, the particular brutality in many fields, events turned even the less hostile local groups against Tokyo. When the war was over, the Japanese were openly rejected in the greater part of Southeast Asia.

On the political side, the close to total political subordination of Japan to the USA deserves our attention. For 3 to 5 decades, Tokyo fairly subserviently followed Washington's policy, including the latter's East and Southeast Asian commitments. Fortunately, Tokyo's constitutional barriers prevented Japan to get deeply—especially militarily—involved in the Indochinese events, but even so, it did not disengage itself from the policy line of the USA. It established close political relations with the anti-communist states of Southeast Asia and though it did not turn vehemently against North Vietnam, it showed restraint in developing its cooperation with Hanoi

⁵ The idea of the unification of territories under Japanese control was born by the late 1930s, when the creation of a Great East Asia (composed of Japan and the occupied or puppet Manchukuo and China) was on the agenda. However, from the beginning of the 1940s, the idea—already bearing the name of Greater Asia Co-Prosperity Sphere—was extended to the whole of Southeast Asia and to parts of the Indian peninsula.

⁶ For some time, in Indochina and in Indonesia, the Japanese were considered as partners in getting rid of the colonizing powers. ('The enemy of my enemy is my friend'.) In other parts of the region, especially where the local Chinese communities were stronger and the metropolitan power less hated, they were treated as enemies.

Regarding the changing perception of the Japanese, it is worthwhile to read the memoirs of Lee Kuan Yew, as his views reflect the thinking of many leaders of Southeast Asia (see: Li, 2003, p. 501). It must be added, however, that the common people, including the business partners of the Japanese, have gained less positive experiences in their dealings with the Japanese.

and the other two Indochinese countries (Laos and Cambodia). This 'political dwarf position'⁷ did not help to totally eliminate concerns about the colonial aspirations of Japan but helped to reduce its danger, and with the rise of the Chinese power, Japan ceased to be a real security threat to the region.

On the economic side, in addition to the well-known state of bilateral collaboration, there were a couple of elements that contributed to the fast reestablishment of economic and commercial ties between Japan and Southeast Asia. Before looking at these factors, it needs to be emphasized that despite of its crushing defeat, Japan could preserve its outstanding abilities that can explain the very rapid reconstruction of the Japanese economy. On the one hand, the traditional working ethic based on strict discipline, the hardworking and dedicated work-mentality of the Japanese and, on the other hand, the professional knowledge and experience gained through the previous decades did not disappear from Japan.⁸ Another stimulating factor was the cluster of agreements concluded between Tokyo and the local states after the termination of the Second World War. These agreements obliged Japan to pay compensations to most of the Southeast Asian countries, and Tokyo fulfilled this obligation through the deliveries of goods and FDI. In addition, more or less simultaneously with its (re)emergence, in Japan the government started to play a rather active, interventionist role (that can be compared today to the idea of 'developmental state'), and it was recognized fairly early that the country must get rid of the declining (mainly labor-intensive, less profitable, environment polluting, etc.) industries that can be relocated to the neighboring countries.

Considering the Japan-ASEAN relations, the period since the end of World War II can be divided into different parts. According to the periodization of the author of this study, the first one can be characterized by the attempts of Japan to have itself (re) accepted into the rather new community of Asian nations. After a short interval in the late 1940s and very early 1950s—when no real ties were upheld between Tokyo and the region—more specifically from the mid-1950s, significant changes occurred (Fairbank et al., 1973, pp. 854-855). This could be called the time of upheaval, when

⁷ At the time of the Cold War, (West-) Germany could be referred to as a similar 'economic giant and political dwarf'.

⁸ This remark requires further clarification. The acquisition of a high level of work ethic depends on the social and cultural conditions of human communities. The attainment of a certain level of industriousness and knowledge does not provide an ethical standard in itself but can be part of the explanation for the achievements in efficiency. Similar characteristics could be attributed also to the Germans after World War II, but that this comparison should not be squared with any kind of 'racial' assumption is proved by the successes of South Korea, Singapore and many other emerging communities.

Tokyo not only reestablished its relations with the newly independent non-communist states of the area but gradually approached the regional economic position of the USA. That was the era when Japan's FDI, reparations, aids poured into Southeast Asia and contributed to the stabilization and development of the countries concerned. However, this rapprochement period came to a halt by the time of the Japanese miracle, when Japan started to become the dominant economic power of Southeast Asia and local partners started to have second thoughts of the position of Tokyo. Then the situation was relatively precarious in the sense that Tokyo could supply the great bulk of consumer goods to the local states, offer production and service capabilities above the general level of the local partners (investments, industries, etc.), while apart from raw materials, the Southeast Asian actors could not counterbalance Japanese exports (Fairbank et al., 1973, p. 828). When referring to this era, local observers usually point at the Japanese economic penetration as a sign of selfish interests to exploit the resources of the area, recalling Tokyo's intentions from the past.⁹ Still, being very diplomatic, they rarely mention the subjective elements contributing to the hostile attitude of the Southeast Asian states and leaders to Japanese presence.¹⁰ The weakening of Japan and the emergence of China from the late 1980s and early 1990s, have changed the situation and opened a new era. As China started to replace Tokyo and push it back to the second place, the position of Japan changed once again. For some time it seemed to be a contender for a kind of equal competitive position with Beijing and showed some capability to preserve its value for the local states. However, this seemingly level playing race proved to be a short period for Japan, as both its internal economic difficulties (the disappearance of the signs of miracle) and the extremely rapid rise of China dissolved this illusion. The third period can be dated from the turn of the century. Since then Japan has still been one of the most important actors in Asia that can still show strength, even though it cannot compete with the PRC. Although Tokyo can still give a lot to the Southeast Asian countries, it

⁹ Naturally, it was true that Tokyo, just as all the other states or political actors, followed its own interest. This 'more selfish' period lasted till the weakening of its position as a would-be global political power and the future economic tsar of Asia. One of the best though condensed introduction to this situation is given by Lee Kuan Yew in Chapter 31 and 32 (Li, 2003). Although, Singapore and Yew's attitude cannot be generalized, his recollection of events and personalities provide an excellent account of the situation, as well as the Japanese and local interests and cooperation.

¹⁰ The author spent long periods in Southeast Asia and recalls from the 1970s and later years that the local people, including the decision-makers, viewed the Japanese with more misgivings than the otherwise also distrusted locals and Chinese coming from either the Mainland or Taiwan. Local communities considered the Japanese as arrogant, selfish and insensitive but it must be added that the cultural differences, the specific norms of behavior and not least the economic superiority and dominance significantly contributed to such feelings. Although the overseas Chinese who have been living in the region for centuries were also treated with distrust, at least they have learnt to be adaptive and were already well-known by the local people.

does not constitute a threat to them, either politically or economically. From Japan's perspective, it needs the region at least as much as the ASEAN members need Tokyo. The time has come when mutual interests can be served.

Table 1

Economic cooperation (net disbursements) (in millions of USD) (2017)

Country and region	Official Development Assistance (ODA)				
	Total	Grants	Grants-in-aid	Technical assistance	Development lending, etc.
Total value	6 939	7 839	4 781	3 058	-900
East Asia	29	982	287	695	-953
Cambodia	115	110	70	40	4,8
China	278	283	18	265	-5,2
Philippines	-284	61	14	48	-346
Vietnam	619	101	26	75	518
Malaysia	118	25	4,0	21	92
Myanmar	42	42	24	19	-
Laos	66	56	33	24	9,9

Source: Trade Statistics, Ministry of Finance, Japan

2.2. Southeast Asia and Japan

As indicated earlier, some of the Southeast Asian countries greeted the Japanese in the late 1930s and early 1940s as potential liberators, while others considered them more as rude enemy forces who brought more havoc to the region than prosperity. Still, those who favored the arrival of the Japanese, having realized that Tokyo did not care about their fate but followed its own interests, soon reconsidered the situation. Nevertheless, they still attempted to use the situation in their favor as long as they could, practically till the arrival (the return) of the metropolitan states. Later on Southeast Asia's colonies¹¹ gained their independence either more or less peacefully (like the British colonies) or through violent actions or wars (as Indonesia, Vietnam) but all of them seemed to be politically weak, economically under-developed and partially prevented from commencing an independent economic development. Besides the Indochinese countries that had got caught up in lengthy and devastating wars, the others also fell within the scope of the East-West crossfire and also seemed to be rather vulnerable. From a political perspective, however, being caught in the crossfire proved to be more a blessing than a curse for the local actors and also for Japan. As

¹¹ In the region only Siam (present-day Thailand) managed to escape colonization.

likely 'dominoes' they received proper attention from the Americans in the forms of political and military support and economic assistance, as well as through the encouragement of Tokyo to help these partners. On the other hand, these local actors welcomed Japan as a power which could be disregarded as a political foe or an imminent threat. In this respect Japan, just as the faraway European declining, middle and smaller states, was considered a desirable and acceptable partner.

If we analyze the political and economic elements combined, it can be stated that the local partners showed a high level of enthusiasm to welcome these Japanese approaches. They were as much receptive to such endeavors as the Japanese gradually realized the infinite usefulness of this process. (Though the following remark can be called an over-simplification in a general sense) it can be established that what Japan could not achieve through the use of arms, it seemingly almost managed to accomplish through a political and economic penetration. By the end of the 1970s, Tokyo was as much a(n economic) power-broker in this area than it had wished to become across the Greater East Asian Co-prosperity Sphere. Though Washington remained the foremost political and military ally of the Southeast Asian states and also one of the closest economic partners, sometimes it was difficult to see which external power took the driver's seat in the local economic machinery.

The states of the region got from Japan what they needed most: money, investments and not least the relocation of technologies (and industries) that could suit them the best. This period proved to be the time of great matching, when Tokyo could get rid of its unwanted (outdated, non-profitable, 'raw material stuffing') industries, while the local states tried to use the Japanese contribution for their economic stabilization and not least for their modernization. That was the classic period of the 'Flying geese' theory that in many respects correctly described the local situation.¹² It should not be a surprise to observers that the development state-kind economic policy followed by Japan was studied and—by different degrees—followed by the local countries. This explains how Singapore managed to join the first group of Newly Industrialized Countries (NICs), while Malaysia, Thailand, partially also the Philippines, and to a lesser degree, Indonesia joined the second tier.

¹² The author of this paper accepts the basic tenets of Kaname Akamatsu's 'Flying geese' theory and strongly supports many of its components. At the same time he is of the view that the situation and the conditions have drastically changed since the 1960s-1970s. In this respect the question is not whether Japan can be still considered the leading goose of the 'team'. While this question deserves further studies—and it is frequently done by economists—this paper lacks the space for wider analyses and comments.

Table 2

Japan's outward FDI by country/region (Balance of payments basis, net and flow)
(USD million)

Country and region	2000	2005	2011	2012	2013	2014	2015	2016	2017
Indonesia	585	1 185	3 611	3 810	3 907	4 835	3 213	2 957	3 388
Malaysia	- 4	524	1 441	1 308	1 265	1 293	2 918	1 394	935
Philippines	510	442	1 019	731	1 242	901	1 531	2 319	1 006
Singapore	- 1521	557	4 492	1 566	3 545	8 144	7 010	-18 581	9 677
Thailand	593	2 125	950	1 142	1 718	1 964	2 154	2 152	1 495
Viet Nam	39	153	1 859	2 570	3 266	1 652	1 446	1 672	2 001
China	1 552	1 730	4 492	1 566	3 545	8 144	7 010	-18 581	9 677
Korea, Rep.	977	1 690	2 439	3 996	3 296	3 196	1 593	1 626	1 700
U.S.A.	14121	12126	14 730	31 974	43 703	49 437	50 218	52 584	51 981
ASEAN	207	5 002	19 645	10 675	23 619	22 819	20 920	-5 340	22 011
EU	10 968	7 872	36 052	29 023	30 999	27 026	35 785	69 122	56 845

Source: Prepared by JETRO (2018) from "Balance of Payment Statistics" (Ministry of Finance, Bank of Japan) and "Foreign Exchange Rate" (Bank of Japan).

The Southeast Asian economies have been rather diverse and have different development capabilities and also different goals. Still, without exception, they felt the need of keeping Tokyo within their orbit and using it as long as it can be considered an asset. They expected different things from Japan, and all of them could get something. Singapore could be considered a high-tech partner but also a close collaborator in services (from monetary services in banking and finance to tourism), while the Indochinese states vied with each other for Japanese financial support and the creation of lower level industrial projects. (Vietnam represented a special case as it resembles more the semi-developed states of ASEAN than the two smaller neighbors (Laos and Cambodia)). It would not be correct to say that Japan had been either an unselfish initiator or the sole contributor to the fast development of Southeast Asia, but in any case, it was a very important, unavoidable partner.

The 1990s brought radical changes both in the situation of the local states (and ASEAN in itself) and of the bilateral (ASEAN-Japan) relations. The crises of the decade shook the self-confidence of these emerging states, showed their economic vulnerability and the need for stronger pillars both within the organization and in the wider environment. Though the emergence of China cannot be linked to the crises but the opening and development of the PRC supplemented the significant changes that contributed to the acceleration of some of the processes that have been determining the developments of the region, in general, and ASEAN-Japan ties, in particular. Among the several factors

that contributed to the significant alterations in these bilateral ties it was—first and foremost—the rise of ASEAN as a formidable political force and also its appearance as an independent actor in the security arena that must be taken into consideration.¹³ Second, in spite of the crises (in the 1990s and also in the first decade of the present century) ASEAN also showed itself as a significant economic partner. It would not be fair to say that the political (and security) gains of ASEAN can be attributed only to external changes (the termination of the Vietnam War and the Cold War, the more balanced great power balance; especially with the emergence of China; etc.), as ASEAN itself has become a more mature, respectfully cohesive entity. Not only its number has increased, but it could withstand outside efforts to interfere with its ‘internal’ (regional and national) affairs and became an ‘asset’ on its own right. Thanks to its sometimes low-key, but, in general, efficient regional foreign policy, for a relatively long time it succeeded in occupying a position from which it could control its relations with outside powers. In addition to its delicately balancing politics, it became the fastest developing market of the emerging regional states.¹⁴ Looking at the statistics, it can be seen that after China and India, ASEAN is the most populous political entity of our time (650 million people). Together the Ten has one of the largest GDP in the world (over USD 3,000 billion), it is the fourth largest trading actor, the 4th–5th largest beneficiary of FDI, and it is one of the fastest growing economies of the world with the incorporation of some of the most capable NICs (AEC Chartbook, 2017; Tables of Chapters 1 and 2). These two factors (the political and economic) combined made ASEAN a huge and solvent market, as well as a prospective collaborator, and this external ‘recognition’ allowed ASEAN to select its ‘close allies’¹⁵.

2.3. Bilateral Relations – Institutionalized

Simultaneously with the transformation of bilateral power relations (with the relative weakening of Japan’s position and the maturation of ASEAN), the parties started to lay a more solid ground for their cooperation. These states together with Tokyo from

¹³ None of the member states alone or the organization as a cooperative body have ever constituted a really global or continental military power. But at the regional level—at least at the turn of the last century and cleverly balancing among the great powers—it could command acceptance as a negotiating partner and respect as a party who can be used against ‘my enemy or contender’ by the external powers.

¹⁴ There have been a few other, much faster developing actors in the global market (China, India, and other examples can be mentioned), but as a regional grouping it surpassed all the other similar organizations and achieved better results.

¹⁵ For the celebration of its 50th anniversary ASEAN invited to its summit Australia, Canada, China, India, Japan, New Zealand, Russia, South Korea, USA, plus the EU as an integration but not its members. In a way these ‘partners’ considered it an honor to be invited.

the opening moves of China, exerted efforts to institutionalize their ties and create the framework and structure within which they could strengthen the legal and administrative, as well as the political bases of relations. The first high-level meetings in 1992 symbolized both the ability of the more and more self-conscious post-Cold War ASEAN to harmonize its internal position to speak with—more or less—one voice and the recognition by Tokyo that it had to accept the united front of the member states instead of the traditional separation of the local states.¹⁶ In the new situation it became also clear that ASEAN extended invitation to its partners (in addition to Japan, China and South-Korea and later on India, Australia and New Zealand were invited), initiated and hosted, guided and controlled the dialogues and not vice versa. The ASEAN versus other Asian actors gatherings did not make it forget the power deficiencies of the regional actors but conferred on the member states certain advantages.

After the first meeting a whole spectrum of cooperation programs and institutional venues were created. In the sphere of economic collaboration the next significant action was that Japan (as well as China and South Korea) joined the leaders of ASEAN in an informal summit (in 1999). This encounter could be considered as a great stimulus to commence economic negotiations in earnest, and in the first decade of the new century Japan succeeded in signing free trade agreements (FTAs) with many of the Southeast Asian countries.¹⁷ These separate FTAs indicated that Japan still

¹⁶ At the period indicated it was still not clear whether this unity can prevail over the individual interests of the member states and whether Tokyo must face a strong united front, or the joint appearance of ASEAN could be considered only as a façade. The following years proved that Japan could still negotiate separately with the ASEAN member one at a time (see Note 17), but in the longer run it turned out that the organization had to be regarded as a more cohesive entity. This was also expressed by the introduction of the 'ASEAN centrality' idea, which initiative showed that the Southeast Asian countries did not want to lose the momentum when they can still command some respects and preserve their once attained appreciation based on strength.

¹⁷ The first informal dialogue between Japan and ASEAN took place in 1973 and was developed into the ASEAN-Japan Forum in 1977. Since then regular meetings at different levels were held, and the talks resulted in the creation of the 'Framework for Comprehensive Economic Partnership' in 2003. Negotiations on its implementation lasted from 2005 until 2007, and the agreement on ASEAN-Japan Comprehensive Economic Partnership (AJCEP) was signed in 2008. It is a unique feature of this agreement that the concrete context of the agreement must be negotiated and clarified with all the individual members of the organization separately. At the same time, these are comprehensive agreements covering most of the basic areas of cooperation, namely trade in goods and services; trade in investment, rules of origin; sanitary and phyto-sanitary issues; technical barriers to trade; dispute settlement mechanism, and economic cooperation questions, in general (MITI (Malaysia), n.d.) AJCEP was followed by the individual FTAs. The FTA with Singapore was concluded earlier, already in 2002, but with Malaysia only in 2006, with Thailand in 2007, with Brunei and Indonesia in 2008. In 2007, the negotiation on ASEAN-Japan Comprehensive Economic Partnership Agreement was closed, and it entered into force the following year. The ASEAN-Japan FTA first covered trade in goods but later on was extended to include trade in services and investment. Nevertheless, there are still important fields (e.g. intellectual property (IP) where no agreement could be reached.

appeared as a valuable partner for these states and those who could gain more from closer cooperation (like Singapore with its more diverse and developed economy) were ready to set new rules at the national level of the bilateral trade. The agreements adopted further stimulated the conclusion of additional FTAs. (On the other hand, the individual approaches of the member states also reflected that ASEAN was not yet in the position to achieve an organization-based and harmonized agreement with external partners.)

The value of the institutionalization of relations can be attributed to the fact that within such framework the extension of cooperation could be achieved easier and secured a distinguished position for both sides. (Naturally, the same assessment can be said of China and South-Korea.) The political vehicles that featured in this cooperation encouraged the partners to establish regular contacts and consultations.¹⁸ As the handling of principal questions has been channeled within these structures, the agenda points generally reflect the modified attitude and also the priorities of both sides. They unambiguously support the notion that since the earlier period focus (pre-turn of the century or early years of the new century) has been relocated and though economic cooperation has remained a central issue, political-security considerations have gained decisive importance.¹⁹

On the economic side, the institutional structure comprises several organisations that—in general—target the development of the ASEAN members, by way of channeling capital and human resources, as well as technological and human knowledge to the region. While these organisations (such as the Japan-ASEAN Integration Fund (JAIF) and others) function relatively smoothly, it can be seen that the emphasis has been placed more on multilateral—regional—cooperation.

The economic and political cooperation has been going on hand in hand, as in the early years of this century not only FTAs were signed but Tokyo also joined ASEAN in the Treaty of Amity and Cooperation in 2004. Japan also joined consultative forums with the organization on security matters. Furthermore, its patrol boats participated in military exercises with some of the member states, too.

¹⁸ In 2018, the 21st Japan-ASEAN Summit Meeting was already held (in Singapore). Though such meetings are usually held along the ASEAN+3 meetings, nevertheless they offer possibilities for discussing issues of mutual interest behind closed doors. (The original idea leading to the creation of the ASEAN Regional Forum (ARF) is attributed to the Japanese Foreign Minister Taro Nakayama, who proposed it in 1991. Finally, ARF came into existence in 1994 (Miguel, 2013, pp. 107-8)).

¹⁹ The comparison of the Tokyo Declaration of 2003 with the Bali Declaration of 2011 or the more recent documents (e.g. Chairman's Statement of the 21st ASEAN-Japan Summit, Singapore, November 14, 2018) helps the observer to navigate among the changing priorities and strategies of the two parties.

3. Economic Cooperation between Japan and Southeast Asia in the Latter Part of the 20th Century and the Early 21st

From the mid-1940s for some time, in addition to losing the war and being compelled to leave the region, Tokyo was considered as a hostile and undesirable actor. Nevertheless, thanks to the Cold War and the American political intentions, its political and military commitment to Southeast Asia, as well as the consequence of Japan's rapid economic revival and Tokyo's reparations to the local states, after a short interval it succeeded in rebuilding its ties with the Southeast Asian partners. Though there still remained sometimes very sensitive political and social questions that impeded this collaboration, but from the economic side Japan was in a fairly favorable position. In the mid-20th century Japan was the only formidable Asian country that managed to approach the level of the industrialized states, and fortunately, it did not have to compete with others. In spite of this, by the 1970s the growth of the Japanese economy started to be impeded as many of the elements that contributed to its fast development had ceased to exert their positive influence and the country was compelled to accelerate the structural reforms that had commenced earlier (Hernádi, 1980, pp. 156-157). During these early decades Japan had not only become one of the major technology importers of the global market, but it started to show its ability to further develop the patents bought and also the additional technology and expertise acquired. In the area of R&D Tokyo approached the developed partners and introduced its own high level and sophisticated products. On both sides of the production factor, namely concerning the demand for raw materials and parts and the need for wider markets, Southeast Asia became an even more important market than before. That was also the era when the Southeast Asian states introduced their export-oriented economic policy that was supplemented by a high level of growth. ASEAN members could attribute their development mainly to industrialization that originally had been based on labor-intensive light industries (e.g. textiles) that were followed by less sophisticated but ever improving branches of production (Yamazawa et al., 2003). Thus, local actors also improved their economic standing and became more capable of offering the goods needed by Japan and also the 'playground' for its outward-looking companies. Seemingly, it was a clear-cut cooperation based on mutual interests. Japan was the supplier of capital, technology, managerial and organizational expertise, and naturally the bulk of more sophisticated production means and consumer goods, while the regional economies offered raw materials, cheap labor, venues for declining (and polluting) industries, and also huge, and rapidly expanding markets, with tens of millions and continuously

enriching consumers (Ibid.). This situation could have remained more or less acceptable for both sides if new developments had not occurred.²⁰

Before analyzing new developments, it must be made clear that the two sides were very important partners for each other, although they did not constitute each other's leading or decisive and especially not exclusive economic contacts. Although data indicated a more balanced relationship, at the turn of the century it was still Japan that played a more dominant role in Southeast Asia than vice versa. These data reflect that ASEAN's cumulative GDP progressively reached some 57 percent of that of Japan (World Bank, 2018),²¹ but the weight of the region in Japan's external economic relations was smaller. Looking around the major economic partners it can be seen that during the last decades (since the 1980s when the ASEAN region itself has accelerated economic development) Southeast Asia was always lagging behind both the USA and Europe. The last years of the first decade of this millennium brought significant changes, when both these regions lost their relative importance, and at least in foreign trade, ASEAN could first approach and later on surpass the levels in these two directions.

3.1. ASEAN – Japan Trade

The improved position of ASEAN in Japan's international economic relations, and Tokyo's more favorable treatment by the Southeast Asian states is overshadowed by the fact that this situation has been created not so much by a straightforward and substantial growth in bilateral trade but partially by the comparative decline of the

²⁰ Both partners (Japan and ASEAN) were strongly shocked by the financial crises both of the late 1990s and the early 2000. It was especially difficult for some of the ASEAN members to get over these difficult times and overcome stagnation. Though the impact and the vulnerability experienced during these crises should not be underestimated, from the point of view of our research it can be mentioned that they had also positive outcomes, as the risks associated with these crises made it clear for both sides that they must cooperate in order to avoid the occurrence of similar situations. It was after the first crisis (1997-1998) that Tokyo offered its financial assistance to the ASEAN members and raised the idea of a special Asian Monetary Fund (instead of IMF), while the ASEAN+3 also made attempts to consolidate the situation through an 'Asian Bond Initiative' and an Asian Bond Market Initiative (Yamazawa et al., 2003).

²¹ This figure reflects the situation in 2017, and, naturally, the ratio had been changing all through the decades passed. Nevertheless, it can be stated that Japan's economic strength has always been much greater than that of the regional group or its individual members. None of the member states can come near to the capacities of Japan though today it is not the sheer size but rather the 'quality' of an economy that really matters. At the same time, it must be added—one single table cannot prove it, but being aware of the trends and processes having taken place in East and Southeast Asia it can be claimed—that the economic capability of ASEAN in itself also gradually strengthened its position vis-à-vis Japan.

USA and Europe and by the dramatic rise of China. While Beijing takes about one fifth of Japanese trade on both sides (though gradually Japanese exports sank below the level of imports from the PRC) ASEAN as a grouping has a ratio of 15 percent. And this trend, especially the strengthened role of the PRC is clearly continuing.

In general, Japan and ASEAN are important trading powers also on a global scale. The ratio of ASEAN's²² global export is 7.1 percent while that of Japan is 4.1 percent. On the import side similar data are 6.5 percent and 3.8 percent respectively (JETRO, 2017). Concerning their direct external trade, the figures are still higher. Southeast Asia as a whole, as indicated, takes 15 percent of both sides of Japanese external trade. The Japanese export to ASEAN reached USD 105.7 million in 2017, while the import value was USD 102.8 million (Table 3). While the comparison of earlier figures indicated stagnation or rather slow growth in foreign trade value, data for the last couple of years showed a higher level increase on both sides of Tokyo's trade. In ASEAN's trade Japan's share was about the same on both the export and import side (8.3 percent). These figures reflect close and mutual reliance on each other, but they do not indicate indissoluble or irreplaceable link. This statement can be supported by the fact that following the ASEAN trend, a continuously, though not drastically, weakening Japanese presence can be observed. Since the middle of the last decade Tokyo lost 1.7-2 percent of its ratio in ASEAN's total trade in goods. Both of the great competitors (USA, EU-28) experienced similar decline, though in their case the rate of decrease was somewhat smaller. Though South Korea could slightly strengthen its overall position, the big winner was China. Within a decade it managed to increase its share by 5-6 percent (AEC Chartbook, 2017²³).

As far as the trade balance in Japan-ASEAN relations is concerned, no unambiguous situation can be described. At certain times Tokyo experienced surplus, while at another time it had deficit in trade. The difference is usually relatively meaningless at the (Japanese) national economic level. It is more important to observe that the individual member states occupy different positions within this relationship and that can lead us to one of the weaker points of these bilateral ties: Tokyo contributed more to the development of those local states that had achieved a higher level of maturity

²² These figures and the later ones are obtained through the personal calculations of the author from the data published in JETRO, 2017. This report indicates the relevant data for ASEAN 6 (namely Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) and leaves out the figures for the smaller 4 members. Scientifically it is not correct to disregard these states but—looking at their size and economic performance—in our general observations the distortion caused by this fact can be considered insignificant.

²³ See Table 4.1. (ASEAN Trade with Dialogue Partners); 4.2. (Share to ASEAN's Total Trade in Goods); 4.3 (Exports of Goods); 4.4 (Imports of Goods).

earlier and where specific Japanese interests could be more easily implemented. (See further comments in the latter parts of the study.)

Table 3

Value of Japanese exports and imports by different areas and economies
(thousands of USD, %)

Country/Area	2017			Year on Year % Change		Balance Y on Y Change	Share Contribution rate			
	Exports	Imports	Balance	Exp.	Imp		Exp	Imp	Exp	Imp
Total	697 220 513	670 970 646	26 249 867	8,2	10,5	-11 309 182	100,0	100,0	8,2	10,5
Asia	382 267 689	329 543 786	52 723 903	11,9	8,0	16 096 775	54,8	49,1	6,3	4,0
East Asia	367 563 353	322 275 022	45 288 331	11,9	7,9	15 334 891	52,7	48,0	6,0	3,9
ASEAN	105 719 321	102 772 986	2 946 335	10,7	11,3	-288 194	15,2	15,3	1,6	1,7
Asian NIEs	151 817 668	63 775 388	88 042 280	9,2	11,2	6 411 661	21,8	9,5	2,0	1,1
P.R. China	132 650 750	164 255 540	-31 604 790	16,5	5,0	10 964 897	19,0	24,5	2,9	1,3
Hong Kong	35 399 136	1 826 484	33 572 652	5,2	-6,50	1 891 547	5,1	0,3	0,3	0,0
Taiwan	40 587 661	25 360 011	15 227 650	3,2	10,6	-1 185 677	5,8	3,8	0,2	0,4
Republic of Korea	53 206 485	28 060 001	25 146 484	15,1	12,1	3 952 318	7,6	4,2	1,1	0,5
Singapore	22 611 036	8 516 524	14 094 512	14,2	14,3	1 752 491	3,2	1,3	0,4	0,2
Thailand	29 394 542	22 705 525	6 689 017	7,3	12,8	-570 560	4,2	3,4	0,3	0,4
Malaysia	12 745 443	19 235 019	-6 489 576	5,1	11,7	-1 400 183	1,8	2,9	0,1	0,3
Indonesia	13 377 837	19 854 133	-6 476 296	18,0	8,8	431 037	1,9	3,0	0,3	0,3
Philippines	11 113 570	9 762 102	1 351 468	7,4	7,7	68 107	1,6	1,5	0,1	0,1
Brunei	84 848	1 712 741	-1 627 893	2,3	1,4	-22 580	0,0	0,3	0,0	0,0
Viet Nam	15 038 501	18 511 408	-3 472 907	15,6	13,9	-224 464	2,2	2,8	0,3	0,4
Laos	116 292	149 261	-32 969	-0,7	29,8	-35 039	0,0	0,0	0,0	0,0
Myanmar	879 683	1 065 142	-185 459	-14,9	13,5	-281 435	0,1	0,2	0,0	0,0
Cambodia	357 570	1 261 131	-903 561	16,4	4,6	-5 567	0,1	0,2	0,0	0,0
U.S.A.	134 594 897	72 038 001	62 556 896	3,5	6,9	-91 084	19,3	10,7	0,7	0,8
Europe	86 513 394	88 686 217	-2 172 823	7,4	3,9	2 609 488	12,4	13,2	0,9	0,6
European Union (28)	77 108 305	77 984 061	-875 756	5,1	4,1	674 471	11,1	11,6	0,6	0,5

Source: Prepared from the Trade Statistics of the Ministry of Finance.

It is understandable that the largest economy of ASEAN, namely Indonesia, has a larger share in Japan's local imports than the others. Its ability to offer important commodities (first of all natural resources) to Tokyo explains this situation, just as it supports the notion that its earlier share of about 50 percent of total Japanese imports is continuously decreasing, as the character and composition of the Japan-ASEAN trade has undergone significant changes. The position of Indonesia on the exports' side is also explicable. The archipelago is not only not the first export market of Japanese goods

Table 4

Japanese exports by principal country of destination (1985-2009) (billions of Yen)

Country and region	1985	1990	1995	2000	2005	2006	2007	2008	2009
Total	41 956	41 457	41 531	51 654	65 657	75 246	83 931	81 018	54 171
Asia	13 658	14 143	18 911	22 319	33 652	38 071	43 551	43 548	31 391
Indonesia	520	724	935	818	1 017	858	1 065	1 304	870
Cambodia	0,4	0,6	7,2	5,6	8,6	9,5	13	19	11
Singapore	925	1 547	2 158	2 244	2 035	2 250	2 566	2 758	1 933
Thailand	488	1 315	1 850	1 469	2 478	2 665	3 009	3 051	2 070
Philippines	224	363	667	1 106	1 000	1 048	1 114	1 034	767
Brunei	21	12	12	6,1	12	12	14	19	15
Viet Nam	35	31	86	213	396	482	666	810	608
Malaysia	523	793	1 573	1 497	1 383	1 537	1 769	1 705	1 200
Myanmar	44	14	15	21	10	12	21	19	19
ASEAN	2 780.4	4 799.6	7 303.2	7 188	8 339.6				7 493
Korea, Rep.	1 694	2 518	2 928	3 309	5 146	5 849	6 384	6 168	4 410
China	2 991	884	2 062	3 274	8 837	10 794	12 839	12 950	10 236
China (Taiwan)	1 205	2 234	2 710	3 874	4 809	5 131	5 274	4 782	3 399
China (HK)	1 565	1 888	2 600	2 930	3 969	4 239	4 572	4 178	2 975
U.S.A.	15 583	13 057	11 333	15 356	14 805	16 934	16 896	14 214	8 733
Europe	6 829	9 683	7 214	9 254	10 840	12 626	14 645	14 304	7 943

Source: Japan Tariff Association

and services but it occupies only the 4th or 5th place among the ten countries, and it can be expected—as showed by the latest figures—that Vietnam has already permanently got ahead of Indonesia, too. These data again refer to the fact that Tokyo can get closer to the smaller but more heavily involved and more cooperative medium economies. Analyzing the composition of foreign trade vis-à-vis the ASEAN states, it can be seen that for long Singapore used to be an outstanding export partner far ahead of the others. In the creation of such a situation the central economic and financial position of the city state played an important role, but as the international fragmentation of labor took new shapes and depth, Singapore has become more a competitor than a collaborator for Japan. (Here, reference can be made to the very tight cooperation like the one characterized by GVCs. This remark should not be understood as a degradation of or a cutback in the Japan-Singapore economic ties, rather it points to the eagerness of the Japanese companies to work with partners which can be more easily directed, who have more vested interests and greater 'flexibility' in accepting the still more rigid

Table 5

Japanese imports by principal country of origin (1985-2009) (billions of Yen)

Country and region	1985	1990	1995	2000	2005	2006	2007	2008	2009
Total	31 085	33 855	31 549	40 938	56 949	67 344	73 136	78 955	51 499
Asia	15 907	14 157	14 551	22 392	34 994	42 114	45 023	49 512	31 683
Indonesia	2 431	1 821	1 335	1 766	2 298	2 807	3 117	3 378	2 038
Cambodia	0,1	0,5	0,7	5,6	12	14	16	13	13
Singapore	381	512	644	694	739	870	829	817	570
Thailand	246	599	950	1 142	1 718	1 964	2 154	2 152	1 495
Philippines	300	313	326	776	850	926	1 026	872	598
Brunei	454	183	127	178	252	272	294	470	311
Viet Nam	16	85	161	285	502	616	720	942	649
Malaysia	1 035	780	992	1 563	1 619	1 801	2 047	2 398	1 558
Myanmar	8,5	6,0	8,7	13	22	29	35	33	32
ASEAN	4 871.6	4 299.5	4 544.4	6 422.6	8 012				7 264
Korea, Rep.	977	1 690	1 622	2 205	2 695	3 178	3 210	3 052	2 051
China	1 552	1 730	3 381	5 941	11 975	13 784	15 035	14 830	11 436
China (Taiwan)	811	1 232	1 347	1 930	1 994	2 365	2 334	2 258	1 711
China (HK)	183	315	257	180	173	177	170	161	103
U.S.A.	6 213	7 586	7 076	7 779	7 074	7 911	8 349	8 040	5 512
Europe	3 370	6 744	5 608	6 172	7 929	8 585	9 812	9 657	7 167

Source: Japan Tariff Association

terms of these enterprises. Singapore is still a leading partner for Tokyo, but the rise of Thailand and also Malaysia and Vietnam point more to the restrained willingness of the Japanese partners to cooperate with a probable competitive partner than to the simple development of relations with the other ASEAN members, where relatively cheap and skilled labor is still found in abundance, and where the traditional features of production cooperation (e.g. relocation, outsourcing) still apply.

In spite of this sluggishness—or to put it more mildly, the slower reaction capability—of the Japanese companies should not be interpreted as large scale incapacity to adapt to the local conditions. In general, both at the administration's level and at the private enterprises, the Japanese managed to follow the changes although probably later than the competitors did. South Korea, Taiwan and also China were less reluctant to get local partners involved in deeper production cooperation than the Japanese. To be sure, Japan also followed the trends in the ASEAN region and in case

of the bigger and more developed local states we could see a shift in the composition of goods towards the significant increase of intermediate products.^{24,25}

3.2. Technological Challenges to Japan's Southeast Asian Position

Japan can be considered a unique example of technology-oriented development. Though from the Meiji Restoration Japan could become a foremost industrial power—as it was proved by the technological superiority during the military campaigns against China and Russia close to the turn of the last century and also in the course of World War II—and it had both the human and scientific abilities to accelerate development. However, until the 1970s the R&D spending of Japan was relatively low. The Japanese frequently bought licenses or full technologies from developed partners instead of developing such industries themselves (Fairbank et al., 1973, p. 826). At the same time, they soon realized that progressing in scientific and technological areas needs stronger concentration in the fields of education and R&D, and the world had to realize that the Japanese could not only imitate or make the replica of products but develop their own brands and invent radically new things. After this early period Japan became one of the foremost industrial and technological powers of the world. However, after a while many more competitors appeared on the scene than Tokyo had 3-4 decades earlier and these competitors have sometimes achieved the same or similar excellence. An additional decisive element is that most of the competitors realized that among the conditions of globalization, the industrial and technological development has also been internationalized, and it is ever more difficult to stand alone in the world. Not least thanks to their unique historical background and the special international relations, as well as their peculiar social and economic environment, for the Americans and Europeans it proved to be easier to make adjustments to these new conditions. Some other partners (e.g. South Korea, Taiwan or Singapore) as a matter of course

²⁴ As the Malaysian case illustrates, today thanks partly to Japanese FDI, the local companies are widely involved in the processing of intermediate products and according to the practice of GVC-networks, (re-) exporting significant share of their production back to the country of origin or to third markets. It is another issue that, in spite of the thorough changes, the Malaysian export is still composed mainly (49 percent) of intermediate goods, and the ratio of final products is relatively low. The modification of the composition of the Malaysian foreign trade characterized also the export to Japan (Yusoff, 2005).

²⁵ It is also true that the Japan-ASEAN Science, Technology and Innovation Platform envisages the promotion of joint research activities, including the incorporation of the private sector representatives, but the Japanese have been always slow in sharing their knowledge with third parties. The competitors recognized their interests in such moves earlier. On several occasions, Abe Shinzo vowed to strengthen Japan-ASEAN relations in the field of science, too, but up till now no break-through actions have been taken (PCOO, 2017).

were compelled to look for and accept external partners, involve these actors as contributors and consumers to and of their services. On the contrary, Japan seemed to be too big, and culturally much more reluctant to adapt to the new circumstances. As has been indicated, Japan could rise as an economic giant as a result of its widening international cooperation, but this collaboration in Southeast Asia had been based on the relations of unequal parties, leaders (Japanese) and subordinates (the partners). The Japanese were never flexible in sharing their knowledge, treat their partners as meaningful collaborators and preferred to keep all their cards (in production, in management, and especially R&D) in their hands. Though from the 1960s and 1970s, in the area of the fragmentation of labor (with now widely used terms global value chains—GVCs), Japan was a pioneer, but it mainly relocated some industries and certain production activities instead of supporting labor fragmentation, including the sharing of technological and research knowledge related to production. At the present, the competitors are already capable local partners involved in the wide sphere of production.

Indirect references have already been made to the fact that the relative rigidity of Japanese firms might make the preservation of local positions somewhat difficult. This vulnerability of ties—a kind of warning sign—can be seen by the composition of the ASEAN trade turnover. In this respect the ratio of the industrial goods that can be related to high technological levels—comparing the figures for the more significant competitors only—the lowest level is shown in the case of Japan. South Korea's and China's ratio is significantly higher. In the absence of further analysis, this can be interpreted only as a sign that Tokyo could not achieve a robust export drive in high tech products and closer cooperation in such industries. In other words, generally speaking, Japan still sticks to the 'traditional' methods of exporting intermediate parts to the ASEAN partners for assembling, either to buy back or return the product to Japan, or deliver it for final consumption to third world countries (Yamaguchi, 2018, p. 3). This comment does not mean that there was no significant exchange of high quality and high level goods between the partners, or that there was no technological cooperation between the parties. It must be acknowledged however, that Japan, one of the first initiator of the new form of fragmentation of labor (namely GVC-networks) in the region, is also represented by many companies involved in such collaboration. What is a negative tendency, however, is that the value of its contribution (its value added ratio), namely the contribution and the weight of such enterprises is declining.²⁶ This trend indicates that its position is weakening in Southeast Asia.

²⁶ According to Yamaguchi Japan's share of value added in gross ASEAN exports dropped from 8 percent to 4 percent (Yamaguchi, 2018, p. 6).

In other words, the 'stabilization' of Japan's Southeast Asian position can be endangered by several important changes. One of these is the radical technological development (the IT revolution) that drastically changed the direction of the global economy. From the point of view of this study, what can be considered the most important element was that though Japan could keep pace with technological developments and remained the leading force behind high-tech industries, in the meantime the other East Asian (not yet the Southeast Asian, but mainly the East Asian actors) and, with some delay, other (at this time also Southeast Asian) partners also climbed higher on the technological ladder. Japan could keep pace with the competitors but, at the same time, lost its unique, exclusive leadership position attained in the 1950s and 1960s-1970s. Its growth lagged behind the partners like South Korea, Taiwan, and not least Singapore. All this could be attributed to the general transformation of the global, and especially East and Southeast Asian, economic situation, including the unforeseeable technological revolution and the 'redistribution' of economic power, as the prime mover. Japan was too slow to make adjustments (Adams et al., 2008; Ichimura, 2015),²⁷ and the regional competitors managed to reach the stage from where they could not be subordinated in the same way as they used to be. Japan remained the 3rd or 4th largest and most developed economy until being eclipsed by China, which has weakened its power position. The Japanese economy could not come close to the growth rate of the post-war decades, and that also contributed to its relative decline.

It is clear that for the last 2.5-3 decades the growth of the Japanese economy has been more than modest. The development achieved in Japan was unsatisfactory for an economy facing such challenges as rapidly increasing competition, internal hindrances (aging population, increasing debt, worsening regional economic conditions, not least due to the fast strengthening of China, etc.), the ever higher level of globalization, and as its essential consequence, stronger interdependence. The same could be experienced in rapid technological advancement where Japan has, again, been on the losing side. (It must be stressed here that the position of Japan as one of the top technologically developed actors has not disappeared, but the competition became

²⁷ The literature on the slowing down of Japanese development is rich, and different observers usually agree that both external and domestic factors contributed to the rather weak performance of Japan all through the last 3-3.5 decades. For instance, Ichimura emphasized the impact of the 'Nixon-shock' and the revaluation of the yen in the 1970s, and later in the 1980s, the burst of the 'bubble economy' in the 1990s, the rise of China, or the worsening population situation (declining fertility rate and the social effects of longer life expectancy, etc. (Ichimura, 2015, pp. 46-47). He also negatively evaluated the achievements in capital accumulation, the slowing down of technological innovations, the shortcomings in economic policies and the lack of preparedness to fend off the competition of China and South Korea (Ibid., pp. 48-50).

tougher than ever, and Japan's earlier favorable position in this field has been gradually undermined. A decade ago the Japanese government expected that through IT technologies it could achieve higher economic growth, but this had not materialized (Adams et al., 2008, p. 151). One of the preconditions attached to the fulfillment of the expectations was that Japan had to become a more open economy, and'... in part to link Japan to its fast growing East Asian region (Ibid., p. 153). It is worth noting that those who determined these expectations (including Nobel Laureate Lawrence R. Klein) referred to East and not Southeast Asia. On the other hand, to be fair, it must be admitted that Japan has not totally lost its scientific edge as for the time being, it still has one of the highest ratio of GDP spending on R&D and it handles more patent issues than the USA (Financial Times, 2009). This can be supplemented by the fact that on the official level, the Japanese administration is more than eager to support Japan-ASEAN scientific cooperation. Earlier it had been presumed that Japan followed a 'technonationalist' science policy not only pursuing technological autonomy (which is the aspiration of China today) but drawing one-sided benefits from international technological cooperation. Today, however, Tokyo is considered to be more cooperative in this field. Nevertheless, the biggest stumbling block is that this official approach cannot be easily sold to the private sphere²⁸ (Degelsegger – Blasy, 2011, p. 101).

4. Relations in the 21st Century

As it has been indicated, the Japan-ASEAN relationship has become more balanced in so far as that both parties consider each other as assets. In the economic area, theoretically Japan seems to be stronger and can offer more to the members of ASEAN than it can gain. However, without Southeast Asia it would be much weaker. The economic strength of Japan is still twice that of the ASEAN states combined (see Table 1), however, one must bear in mind that the growth rate in most of the Southeast Asian states is higher than that of Japan. In addition, in many fields the leading members are already competing with the Japanese firms even in the leading (sub)branches of the economy. Yet the most significant element that has been contributing to the decline of Japanese power is the continuous emergence of China. This danger for Tokyo stems not so much from the approximately three times bigger GDP of China, but from the perception of the ASEAN members that they can get much more from

²⁸ In Degelsegger – Blasy (2011) many representatives of the ASEAN region emphasized the positive approach and readiness of the Japanese Government to support scientific projects with their Southeast Asian partners.

Beijing than from Tokyo. Japan has lost its leverage over these partners, all of which, or at least many of them, have already become very dependent on China.²⁹

4.1. The Role of ODA and FDI in Japan-ASEAN Cooperation

Naturally, in spite of the rather negative conclusions drawn above, there are some areas where Japan still deserves respect. However, the number and impact of such spheres is also declining.

Concerning the flow of capital into Southeast Asia, it can be observed today that, disregarding the developed economies, this region is the most favorable place for investors coming either from outside or inside the region of ASEAN.³⁰ However, this situation differs very much in comparison with the post World War II period when it was not really a priority area for anyone. Local tensions (the process of decolonization, the war in Indochina, the ambiguous policy of local leaders like Sukarno, etc.) and global issues turned the attention of potential collaborators away from Southeast Asia. In the 1950s and 1960s, the East Asian actors (South Korea, Taiwan) were treated more favorably by the partners (first of all the USA) than these countries. True, certain former colonial powers still could retain some influence by way of strengthening their economic presence in the region, but they had not been in the position to satisfy the

²⁹ It is difficult to see a harmonized China-policy within the organization. Some members (Cambodia and partly Laos) are ready to fully accept the presence and influence of the PRC. Others (e.g. the Philippines) try to get as much out of this relationship as they can. Again others, e.g. Indonesia, play low-profile policy though they are aware of the fact that the stability of any of the local governments depends on the arrival of Chinese funds (FDI, loans, etc.) and the relatively cheap goods, affordably priced for the common folk, can stabilize the economy and satisfy the purchasing ability of less well-to-do citizens (though at the expense of political sovereignty). At the same time, the historically and traditionally anti-China actor, Vietnam is extremely cautious not to offend the big neighbor. Singapore and Thailand, that usually keep low profiles, continue to do so. In general, it is very rare that any of the local states openly express their dissatisfaction with the aggressive economic (and political, as well as military expansion of the Chinese actors).

In personal interviews with the author, Indonesian economists and entrepreneurs admitted that they felt uneasy about the Chinese presence, and they could not expect the huge funds required for infrastructural investments and the keeping of the social contradictions within limits, only from China. The government considers the increasing Chinese presence a less significant and less direct political threat than the probable, violent rise of extreme religious forces.

³⁰ While the arrival of external FDI can be easily understood and explained by historical and economic factors, local (or inward) ASEAN FDI deserves somewhat more attention, although it cannot be explored here in full details. The relatively high level of regional capital flow is experienced in many such organizations, from Europe to Latin-America or Africa. What makes Southeast Asia a distinctive case is that here a pivotal role is played by Singapore attracting most of the local capital (above 50 percent) and also being the most important FDI supplier (Sitong, 2017).

demands of local states, and later on they could not match the USA (and Japan) either. The process of emerging as an unquestionable investment market took some while and required further changes.³¹

Regarding Japan's position in this respect, difference can be made between FDI and its official development assistance (ODA). From the mid-1950s until the early 1990s, in the ODA area the then ASEAN region used to be the most significant and greatest recipient of Japanese capital-inflow. Reparations, ODA-sources and the more sporadic FDI all served to strengthen the presence of Tokyo in Southeast Asia, which had positive results. Thanks to the combination of these financial means, Japan successfully returned to the region, not least due also to the relocation of some of its industries to local partners. Having seen the improvement of local conditions and following this trend, Tokyo further strengthened its willingness to direct more investment here, and as a consequence, both the volume of external FDI and its share in the GDP of the local actors have increased manifold (Sitong, 2017). By the early 1990s, Japan became the first external investor in the region (Miguelm, 2013, p. 104). All these showed the appreciation of ASEAN, the acceleration of economic cooperation and also the rising dependence of the region on Japan.

Though it used to be an important economic and also a political tool with due course development assistance in Southeast Asia has started to be replaced by more direct financial cooperation. Nevertheless, the ODA is still applied by Tokyo. While recently the greatest bulk of Japanese ODA has been directed to other third world regions, among the major beneficiaries we still find Vietnam (with roughly 10 percent of all the Japanese ODA) and the more under-developed countries of the organization (Laos, Cambodia, Myanmar) (see: Table 1). In addition, the Indochinese states receive special attention not only because of their economic and social situation but as a means to assist these countries to retain at least some parts of their independence from China.

Regional states welcomed not only ODA but also foreign capital (FDI), accepted the courting of external partners and tried to exploit the new situation, and not without success. At the time of Japan's return to Southeast Asia, the region could be

³¹ Just to name a few of these factors: on the external side, the impact of the 'Domino theory', the birth of ASEAN and the stabilization of regional security as well as local collaboration, the internal problems of the USA, the changing nature of China-factor, etc. On the internal side, the rapid development of the states of the region (lagging behind East Asia but following it not long after), the oil-boom in Indonesia, the amazing emergence of Singapore as an economic hub, and many more factors contributed to the excellence of Southeast Asia. As a special Japanese element, the so-called Plaza Accord of 1985, namely the appreciation of the yen (by American demands) provided incentives to relocate industries abroad.

characterized not only by the heavy presence of Japanese capital in Southeast Asia but also by the very solid power position of Tokyo.³² Then Japan had no real 'local' (Asian) competitors. With the emergence of the 'dragons', and more importantly, with the rise of China, the situation has drastically changed. Tokyo lost its leading role in the sphere of FDI and also the possibility to exploit the positive local elements both politically and economically, namely such elements as economic superiority, unbalanced power relations, the capability to dictate the directions of cooperation, etc. Currently, Tokyo must compete with South Korea, Taiwan, in some respect also the ASEAN member Singapore, but first and foremost with China. Today, this competition is related not plainly to the allocation of capital, or to obtaining the best work force in the region, but it concerns many other segments of economic cooperation, from the relocation of industries to technological cooperation, including the realization of GVC-collaboration. Japan is still the greatest supplier of funds and capital in the region, although cannot dominate it anymore and has to make adjustments to the new conditions, which are usually painful for the Japanese and positive for the local partners. It must make adjustments because it still needs both the local markets and the reliable supply of many commodities.

In order to have a clearer picture of the place of the ASEAN-region in Japan's foreign relations, it must be added that though Japan has been playing a leading role in the development of Southeast Asia, in reality the present ASEAN region has never been the most important direction in the use of its FDI. The figures for Japanese FDI to Southeast Asia are remarkable, but the developed partners, first of all the USA and West Europe, have always been prioritized. In addition to the political and security considerations, Tokyo has placed higher value on these investment and cooperation contacts than on the ASEAN member states. In spite of this—as also reflected by Table 6.4 in AEC Chartbook 2017—Japan is still one of the heaviest investors in the region with a share of about 15 percent (Garcia, 2017). The ambivalence of the Japanese approach to the ASEAN-region is also mirrored by the composition of ASEAN FDI-sources by region. In this respect, regardless of the importance attributed by Tokyo to Southeast Asia, Japan is relatively far behind the EU-28 and also the USA and falls behind ASEAN inward investments, though it is still ahead of China.³³

³² In addition to Japan, the USA and the former colonial states were also present, but the engine of economic growth and development was more Japan than the other non-Asian states.

³³ For the sake of correct interpretation of this statement it must be taken into account that in spite of their close cooperation, the EU members should be considered separately as they implement their FDI-policies on national basis. In case of the USA significant fluctuations could be experienced in the last years and today it is pretty difficult to predict the actions of the American administration, and the major enterprises.

In 2015, the Japanese government and firms directed USD 20,624 million toward ASEAN-6, which was only 15,1 percent of Japan's outward FDI. All in all, these data indicate a variable trend in spite of the claims of JETRO that there is a shift, and Japanese companies turn their attention and transfers from China to ASEAN (JETRO, 2017, p. 6).³⁴

The Japanese FDI-position is challenged by one single actor, the PRC as Beijing's presence is felt in the region stronger than ever. Though as it was mentioned above, Chinese investments are still behind that of the Japanese, the trends show a straight-forward rising tendency. China has already overcome Japan in the area of foreign trade value and, in general, it can offer more favorable conditions to the local states in the area of investments, too. Tokyo might have the advantage in the 'quality' competition, but concerning most of the other components of FDI (e.g. prices, financial conditions, etc.) Beijing usually offers better terms.³⁵ Though some analysts claim that China's FDI activity will be still concentrated in such niche sectors as real estate, mining and quarrying (The Business Times, 2018), looking back on the extremely rapid expansion of Chinese economy and keeping in mind the 'Made in China 2025' plan, it cannot be ruled out that already in the coming years China will become a real antagonist in many other areas. There are signs that it has already started to be involved in large-scale infrastructural projects (that cannot be separated from the Belt and Road Initiative, BRI), and also in sophisticated and high level industrial productions.³⁶ The danger for Japan (and the other interested parties) lies in the fact that many Chinese companies can easily maintain competition with external partners³⁷ when the local capacities cannot meet all the high standard demands.³⁸

³⁴ The share of the individual ASEAN members deserves some attention as it shows that Singapore is the biggest recipient of Japanese capital in the region. Thailand and Indonesia follow the city state but Singapore's position seems to be weakened as the negative turn in 2016 can be attributed to Singapore. The early data of 2017 also show that the city state has been preceded by Thailand. As far as the figures originating from this period (2015-2017) indicate the less competitive partners (Indonesia, the Philippines but first of all Vietnam) are gaining importance in relation to FDI. Regarding Japan's inward FDI ASEAN, practically Singapore alone, is also becoming stronger following such partners as the USA and the EU (JETRO, 2017, p. 7).

³⁵ It must not be forgotten that in most cases the 'cheaper' is more acceptable for most of the local players than the 'better' (or higher quality).

³⁶ Lenovo already appeared in Thailand and Huawei in Malaysia. If we consider the 'Made in China 2025' project and the worsening profitability of the Chinese firms, it is logical that the number and value of Chinese investment in many other sectors will be on the rise (Ibid.).

³⁷ Especially if they can get government support. It is clear that the present government is ready to provide appropriate assistance to its enterprises if it concerns strategic goals.

³⁸ For instance, external partners have already started to complain about the shortage of appropriate and trained workforce.

In addition to the fact mentioned above, the FDI situation in the region has further contradictory elements from the Japanese point of view. For instance, it can be pointed out that at present the PRC is the strongest rival of ASEAN for Japanese investments. Since the 1990s, there has been a significant change in the direction of Japanese FDI, and today China is the biggest recipient of Japanese funds. As a group, ASEAN still gets slightly more than the PRC, but as individual recipient, China is the greatest beneficiary.³⁹ It can be also observed that while in the case of the PRC there is a more or less continuous rise, among the ASEAN members significant fluctuations can be experienced. This fluctuation appears in connection with ASEAN and is also related to the distribution of funds among its members. At present, Thailand seems to be the top destination of Japanese FDI, however, the situation can easily change partly because changes in the situation of Singapore (its coming back to pole position) or the moving forward by Vietnam.

Another interesting element in the FDI-question is the internal flow of capital within ASEAN. Available data show not only that the level of the internal circulation of capital is much higher than that of Japanese FDI in the ASEAN region but in this field Singapore takes the lead once again. The city state is not only the biggest beneficiary of the inward flows of FDI (AEC 2017; Table 6.2.), but at the same time, it is also the most import 'internal' FDI provider of the other member states. In this respect Singapore plays multiple roles: it is a competitor of Japan (and China and many other external FDI-suppliers) and in the position of a first class technological power having reached the development stage of other high tech 'strongmen', it can be used as a 'distribution center' or intermediary between the outside and local parties (namely, among others, between Japan and the other ASEAN partners), reducing the risks associated with GVC-activities.⁴⁰

³⁹ According to Sako's calculations, the value of Japanese FDI to 5 members of ASEAN (ASEAN-5 composed of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) is not much higher than the value of Japanese investments in the PRC (Sako, 2017; Chart 1). Sako did not explain why Singapore was left out of his calculations, but it is well-known that though Singapore has been one of the closest, if not the closest, Southeast Asian partners of Japan, in the recent past Tokyo had to see a negative turn in Japan-Singapore FDI-contacts, while the city state channeled much more funds and investments to Japan than vice versa (see: Ming, 2017; Han, 2016).

⁴⁰ It might seem to be the fixed idea of the author that, talking about Singapore, the 'Chinese-question' always comes to his mind. However, the regional role of the 'overseas Chinese' reminds us that this 'economic hub' of ASEAN is controlled and managed by business people of Chinese descent and representing 'Chinese connections' (guanxi).

4.2. Participation in Multilateral Agreements

As could be witnessed in the 20th century, regional integrations and/or multilateral agreements cannot yet substitute or degrade certain bilateral relations, but they have gained big importance. International multilateral agreements and forums are the means and venues where individual interests can be best sidelined and multilateral interests harmonized. It might seem to be a strange assertion, but in many cases the importance related to a membership in such integrations can be attributed not really to the direct profits of membership itself but to the fact that an actor is not left out, and it must not face the negative consequences of exclusion.⁴¹ Both Japan and ASEAN have enough economic (and political) clout to be respected and to be invited to join such schemes. This fact might help them to join forces and work together in wider regional frames, but there are elements that—in general and on some concrete issues—keep the parties apart.

First of all, both parties try very hard to strengthen their individual position in the changing East and Southeast Asian economic and political environment and, although they consider each other useful partners in the multilateral environment, they cannot and do not want to disregard the present-day value of regionalism and regional trading blocs for the individual actors, the special interests of such actors, and also the contradictions stemming from different positions and interests at the level of regionalism. The situation is further complicated by the fact that though ASEAN can be regarded as such an entity on its own right and enjoys certain advantages (see the ASEAN+3 dialogues), it still does not have a harmonized policy towards other multilateral forms of cooperation. (See the member states' individual attitude towards TPP-11.) In other words, the ASEAN Free Trade Zone (AFTA) and the longer term ASEAN Economic Community (AEC) plan reflect the strength and also the weaknesses of the organizations. In spite of several achievements (significant reduction of tariffs, establishment of harmonized tariff nomenclature, blueprints for common investment area, joint financial measures, etc.), ASEAN could not overcome the problems flowing from the fact that these countries are more competitive than complementary. The member states are rather united vis-à-vis third parties, but they jealously try to preserve or strengthen their individual regional positions in all the spheres they can

⁴¹ Two simple remarks reflect the accuracy of this statement. First, the exclusion of the island of Taiwan from many international organizations clearly shows that though Taipei can cope with the losses suffered due to its denial of membership in certain multilateral institutions, after some time the accumulated losses might become unbearable. Second, in connection with the previous element, the greatest risks originate not from the mathematically predictable losses but from being absent at the decision-making tables where the rules of various games are adopted.

do so. Nevertheless, multilateral cooperation is a decisive issue and they have been continuously exploring the chances of deepening their relations with their closest external partners. This is shown by the several agreements concluded.

Within the framework of the ASEAN+3 negotiations and collaboration that has been going on since 1999 including Japan, ASEAN tried to lay down specific conditions for cooperation. The free trade agreements (FTAs) with the 3+3 partners were negotiated one by one and while most of these documents slightly differ in their content, all of them reflect the impact of the organization. The ASEAN-Japan FTA (AJFTA) entered into force in 2008. Although based on mutual interests, this agreement was the result of strong Japanese initiatives that facilitated the movement of materials and goods. At the same time, it could be also attributed to the China-Japan competition for regional influence (Taguchi – Lee, 2016, p. 7). While this FTA differs from that of the other ASEAN partners, what deserves mentioning is the fact that some of the other ASEAN+FTAs facilitated more mobilized cooperation at a higher level than AFTA. Though these FTAs serve their purpose for the organization, in order to further their positive impacts, ASEAN is striving for working out a huge free trade area with the closest partner through the Regional Comprehensive Economic Partnership (RCEP). Talks about RCEP started in 2012, but its final document has not been adopted, yet.

Considering each other important partners, and being aware that other third parties can be at least as important, if not more significant for the 'other side', both the ASEAN members and Japan follow with interest the initiatives and actions directed at the creation of new institutionalized cooperation schemes within a still wider geographical area. Being in a relatively enviable economic and political position, neither Japan nor ASEAN need to be afraid of not being invited to join their forces with others or of being left out. On the contrary, ASEAN is accepted as a more or less cohesive body, and its members are sought after either individually or collectively as partners. They seem to be ready to get involved in following negotiations concerning such endeavors. Tokyo is not different in this respect. All this is clearly proven by the joining of Japan and some of the ASEAN states to the TPP-11 project, namely the replacement of the USA-rejected Trans-Pacific Partnership idea. This agreement was already signed, and its ratification process has commenced.⁴² Japan supported the idea from

⁴² Officially known as Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP but generally referred to as TPP-11, at present the Partnership includes 11 countries, some of the original negotiators of the Trans-Pacific Partnership (TPP) project that was rejected by President Trump. TPP-11 can be considered the third largest free trade sphere after NAFTA and the European Union. Most of the agreement stipulations correspond to the similar provisions of the TPP, but mainly those elements that were originally opposed by the American negotiators or preferred by them were

the beginning, but from amongst the members of ASEAN only 4 (Brunei, Malaysia, Singapore, Vietnam) joined TPP-11. That makes it clear that there are internal conflicting or at least diverging interests within ASEAN. Compared with the Regional Comprehensive Economic Partnership (RCEP) agreement (see RCEP below), TPP-11 contains more stringent trade measures.⁴³ This explains why some ASEAN members showed reluctance to make sacrifices or make more 'painful' adaptation. At the same time, it was clear that sooner than later they—especially Indonesia and Thailand—had to follow suit. (Both countries have already expressed their interest in affiliating themselves with CPTPP.)⁴⁴ It could be expected that TPP-11 will facilitate and increase internal trade, and it was understandable why the highly foreign trade-dependent Singapore is trying to join every multilateral forum where international trade can be eased. In this respect, Japan and the city state can be considered—naturally not without conflicts of interest—close allies. According to observers, one of the major advantages of the new TPP agreement can be its appeal to foreign investors and in this area Japan could become again a big asset and also a significant beneficiary.

TPP-11 is the most recent attempt of the East Asian and Pacific countries to further their economic, and especially trade interests, although it is not the only attempt. ASEAN has been active for some time to take the lead and bind its closest partners to itself by the conclusion of a general FTA. The conclusion of the so-called Regional Comprehensive Economic Partnership (RCEP) agreement envisaged to be signed with the major partners (ASEAN+3 plus 3 or ASEAN+6) has been on the agenda since 2012.⁴⁵ Though RCEP would be the largest and—with the incorporation of China and India—the strongest and perhaps most influential regional trading bloc commanding

built into the new agreement, if supported by the present signatories. Ratified by a proper number of signatories (6 from the 11), the agreement entered into force on December 30, 2018.

⁴³ The consolidated text of TPP-11 agreement: [online] Available form: <https://www.iilj.org/wp-content/uploads/2018/03/CPTPP-consolidated.pdf>

⁴⁴ It was not surprising that Tokyo and Singapore were among the firsts who ratified TPP-11. And it was also understandable and even expected that Bangkok and Jakarta showed their interest in joining TPP-11. Bangkok signaled its readiness for talks already in May 2018, while Indonesia also made it clear in mid-2018 that it 'will make a decision on this topic' within a short time.

⁴⁵ In RCEP, in addition to the ASEAN members, Australia, China, India, Japan, New Zealand, and South Korea (the so-called FTA partners of ASEAN) strive for reaching a trade deal. The agreement envisaged to strengthen the cooperation of these countries on a wider scale, substituting the present ASEAN+1 FTA system with a more comprehensive one. It would cover all the major fields related to traditional commerce (trade in goods, services, investment), to the regulation of relevant questions (rules of origin, intellectual property rights, dispute settlements, competition, etc., and also new issues like e-commerce.) Originally, the agreement was expected to be completed by the end of 2015, however, by the end of 2018 some open questions still remained unanswered. A comprehensive introduction into RCEP is provided on the ASEAN website: [online] Available form: https://asean.org/?static_post=rcep-regional-comprehensive-economic-partnership.

around 40 percent of the global economic power (Petri – Plummer, 2018). If it enters into force, it can increase global GDP by about 0.2 percent a year (Ibid.).⁴⁶ However, it is an open question how it could serve the long-term interests of ASEAN and Japan. For the ASEAN the biggest query is whether they can remain in the driver's seat and direct the course of negotiations, or whether such an agreement will render them more vulnerable to the dominant powers, first of all to China. The talks show that the member states and the weaker actors (first of all India) are still looking for the answer, and some of them are hesitant to accept joint conditions. (Originally, Indonesia indicated that RCEP is more important for it than TPP, however, later statements show that the dice has not yet been cast, and Jakarta has moved closer to TPP-11 (Takahashi, 2018)).

5. The Present and the Near Future – Conclusions

Although the Japanese-ASEAN (Southeast Asian) relations have been divided by the author of this paper into three major time horizons, this periodization can be expanded and many more sub-periods can be separated from one another. From the point of view of this study what is important now is the present period the origin of which can be traced back to 2013-2014. It was easy to claim that this period started in 2012 with the election of Xi Jinping to his many posts, but it must be admitted that the real impact of his new policies could already be felt from 2013. That was the time when the new Chinese leader(ship) replaced the more cautious (more Deng Xiaoping-type) policies of the previous Chinese political generation with the more assertive, not simply self-confident but more ambitious international policy lines. (It might seem to be questionable that in his study on Japan, the timing of periodization is related to the events in China and not in Japan. Especially as one could also talk about the second premiership of Shinzo Abe, whose foreign policy and readjusted ASEAN-policy had an impact on the Japan-ASEAN relations, too. However, the author's position is quite clear: since 2012-2013 China has been the prime player who calls the shots, and both Japan and ASEAN follow the events and attempt to adapt.)

Neither Japan, nor ASEAN is a secondary player and—at the time mentioned—they realized that they needed each other more than ever.⁴⁷ As non-outstanding military

⁴⁶ The big question is when it can be concluded, as after six years of negotiations only four of the 21 (negotiating) chapters were closed (Petri – Plummer, 2018).

⁴⁷ Emphasizing the correctness of this remark and the importance of these bilateral relations for the parties, it must not be lost out of sight that they are not determinant partners for each other. Some others (like the USA, China, Europe) are more significant than the 'other side'.

and political actors, they were compelled to grasp the meaning of a new situation in which a 'new' emerging superpower openly intended to use its (up till now soft) power to expand. Namely, China made it clear that it expects others to accept its outstanding power position; it is ready to take down all obstacles on its way to superpower status; it is ready to eliminate or at least regularize those who dare to question this position; and it is ready to use also other instruments of power in order to ensure this position.

This was the time when the two parties had to realize that neither of them was a really formidable opponent, let alone a kind of counter-weight to China. Though the trend that started in the late 1980s has not yet fully terminated, the situation in the mid-2010s clearly reflected the radically changed position of the parties and plenty of data characterized the changes. While in the 1990s Japan held 74.5 percent of East Asian GDP, and China only 8.6 percent, in 2014 the figures were 52.5 percent for the PRC and 23.3 percent for Japan. Similar shifts could be observed practically in all the major economic areas, perhaps with the exception of the otherwise decisive technological sphere (Dent, 2017; Table 7).⁴⁸ Despite its huge successes in our globalized world, not even China can avoid cooperating with others, and Japan and ASEAN are aware of this interdependent state of affairs. At the same time, they also have to comprehend that the political game of equal partners (that seemingly characterized the foreign policies of Xi's predecessors) is over. Nevertheless, neither Japan, nor the ASEAN could openly reject the new Chinese policy lines. They have been already too heavily dependent on China for different reasons but with equal weight, in the sense that both of them had to recognize that in themselves they are not a match for the PRC. Though this author can partly go along with the supposition that for some time the ASEAN members formed their relations with Japan based essentially on economic considerations (Hassan, 2003, p. 145), today it is clear that the organization needs Tokyo also for political and security purposes. At least for the present, the international political and security sphere is the area where neither of them need to be afraid of the aspirations of the other side. Neither of them can threaten the other party and thus they can unite their forces or at least try to rely on each other as more or less equals.

The economic sphere is somewhat different. Here the level of interdependence differs significantly from that of the political-security stage. To be sure, both parties need the other side and can gain a lot from cooperation. Among the major differences,

⁴⁸ Though according to Dent even in the area of 'Technology and Innovation' China has replaced Japan, here Japan still commands great strength and the advantage of the PRC is not without fault (Dent, 2017; Table 7). (The table referred to incorporates 'patent applications'; 'trademark applications'; and 'high technology exports' where China really leaped to No. 1 position although in spite of its enormous development, it has significant deficiencies.)

however, we find imbalanced power relations, namely the more advantageous position of Japan, the collision of direct interests, and not least the increasing dependence on China of both sides. There is an additional factor that can also be considered a weakening element of these bilateral ties. Today, the once leading ally of the region, Japan is only the third or fourth most important trading partner of ASEAN. Japan is preceded by China, the USA and the EU-28. The turnover with Japan is only around 55 percent of the trade volume with China, and while during the last decade (2007 to 2016) the trade with the PRC increased by 215 percent (!), the same figure for Japan was only 16.5 percent. During these years, the share of China in the organization's foreign trade rose from 10.6 percent to 16.5 percent, while the same indicator for Tokyo showed a decline from 10.7 percent to 9 percent. While Japan's share in ASEAN's foreign trade is 15.2 percent, that of China's is 21.7 percent (AEC Chartbook, 2017). It is also a revealing fact that Japan has a more or less balanced trade with ASEAN, but China has high surpluses in both directions.

In spite of the rather negative outcome of past trends and looking at the economic position of the parties, it is not difficult to identify certain basic points in their relationship. Japan is still the third strongest actor of the world economy.⁴⁹ Though the ASEAN member states together constitute a significant economic power, and their growth rate is much higher than that of Japan, the economic strength of the two sides will remain incomparable for some time to come.⁵⁰ This means that due to many—partly historically created—weaknesses such as relative underdevelopment; divergence of economic interests; heavier reliance on outsiders than on each other; technological connectedness to external partners; etc. they can hardly approximate the economic strength of Japan. Thus the member states, either alone or as a group, are weaker than Tokyo. This means that theoretically there is hardly any chance for them to overcome Japan in their bilateral (Japan-ASEAN) relations or in their connections

⁴⁹ According to World Bank data and estimation, Japan occupied the third place in the world economy with USD 4,872 billion (calculated in current prices). The overall growth rate of the country was estimated to be 1.51 percent in 2017, and a slow-down was expected for 2018. China's similar figure was USD 12,015 billion. Here the growth rate showed significant decline in comparison to the previous decades but was still 6.7 percent, and in 2018 it is expected to develop in a similar pace. Figures calculated on PPP basis describe a somewhat different situation: China is the global 'winner' with USD 23,159 billion, and Japan is the fourth (after India) with USD 5,429 billion (Knoema, 2018).

⁵⁰ Among the member states Indonesia (1,015–16), Thailand (455–26), Singapore (324–37), Malaysia (314–38), the Philippines (313–39), Vietnam (220–46) taken together reach USD 2,641 billion. The smaller, less developed partners cannot be considered significant in this respect (Myanmar: 66.5; Cambodia: 22.3; Laos: 17.0; Brunei: USD 12.7 billion). On the basis of PPP, the values are as follows: USD 3,243 (Indonesia: 7), 1,234 (Thailand: 20), 931 (Malaysia: 26), 876 (the Philippines: 29), 647 (Vietnam: 35) 527 (Singapore: 38) and altogether they constitute USD 7,458. (All figures are calculated in USD billions. The supplementary figure indicates the position of the given country on the global list) (Ibid.).

with third parties. Furthermore, the ties are, again, weakened by the fact that for the last decades both Japan and ASEAN have shifted attention from each other towards Beijing. However, precisely this factor and the growing dependence on their Chinese ties facilitated their increasingly 'cordial' ties. The more they (ASEAN and Tokyo) get closer to the PRC the more they need each other to create a counterweight.

At the same time, it would not be correct to claim that within these relatively unbalanced power-relations ASEAN does not have the means at its disposal to defend its own interest. In addition to the political and security considerations of any outside power claiming interests in Southeast Asia, the regional organization can significantly strengthen its appeal by showing unity. Through the implementation of the ASEAN Economic Union project, the members can consolidate their regional economic position. Through their harmonized policies the local states can still offer Japan and its companies many elements, both in the production and service areas that are desirable for these latter actors. The ASEAN states can also gain a lot from this bilateral cooperation, and as a solidly united political entity with some (less commendable) economic achievements, it constitutes a good partner for all the major economic powers, from Europe to North-America, and because of this it can be in an enviable bargaining position vis-à-vis Tokyo.

A basic contradiction can be observed in these bilateral relations: though Japan lost its commanding position in Southeast Asia, it is in a slightly better position to advance its interest than any time in the past. To be sure, it must compete with many partners, especially with China, but it is in a quiescent position as the ASEAN-members should not be afraid of its political aspirations and might welcome Tokyo's presence in Southeast Asia. In the political and security arenas the two parties can assist each other to withstand the domination of China. Still, Japan must learn certain lessons. It must show tactfulness in its international policies and reread its history.⁵¹

Regarding the more concrete economic elements of the bilateral cooperation, some factors depend on the position of the two sides while others are related to third parties. In Japan's case the most important economic question is its revival as a relatively fast developing economy. In the last couple of years Japan could not fulfill the economic expectations.⁵² Abenomics, introduced by the present Prime Minister, also tried

⁵¹ As mentioned earlier, the Japanese must learn that the enmity showed towards them does not originate only from their better economic position but from certain behavioral features that contradict the expectations of the local people (Er, 2000, p. 138).

⁵² As mentioned earlier, the exploration of the likelihood of the acceleration of the Japanese development was carried out by a high level team of economists, including Nobel-laureate Lawrence

to make corrections.⁵³ Its results in stimulating growth should not be underestimated, although the clearly drastic breakthrough could not be achieved so far. While the economic revival led to an increase in GDP, no new economic 'miracle' was achieved. Instead of reaching the targeted 3 percent, the economy grew at a 0.65 percent rate between 2000-2010.⁵⁴ No great achievements occurred in the monetary policy or in handling the demographic issue, and, as one of the most important element, which in this respect was a serious failure of Abenomics, no substantial development could be realized in the restructuring of the Japanese economic and business environment. Needless to say, the financial crises of the previous decade also shook Japan (like many of its competitors). Nevertheless, what really counts from the long-term perspective is the further weakening of the country's position, and its relative inability to keep pace with competitors.

Japan's regional position is further complicated by the American attitude towards East Asia, in general, and the Asian security question, in particular. At the time of writing this study, it is very difficult to predict how Washington will direct its policy towards China, not only in the sphere of trade but also regarding the questions of power relations and security considerations. Moreover, the American attitude will have a direct impact both on Japan, ASEAN and their bilateral relationship. The Trump administration has disengaged itself from the previous, cautious but clear policy of acknowledging the rise of China, and maintained its formidable presence (or deterrence) in Asia. President Trump's policy has not crystallized yet, which makes Tokyo and ASEAN uncertain. This unpredictability of American presence or the abandonment of this region can forge the collaboration of these two partners with the aim of strengthening their position against the rising power of China. On the other hand, as both actors expect more gains from their cooperation with Beijing than from the other party (Japan or ASEAN), they will be more inclined to forget about the

R. Klein. This team used a method of simulation on the basis of the data from the first years of the century, and came up with a comprehensive, rather positive and optimistic proposal (see Adams et al., 2008; Chapters 12, 13, and 14). It was stated by the team that the Japanese economy had the potential to increase the pace of its development (Ibid., p. 143 and p. 144) and recommended changes in policy and organization. At the same time they also seemed to be aware of the difficulties concerning cultural and organizational changes and referred to other hindrances. Considering the trends and economic events of the last 10-15 years, it can be stated that Japan could not radically improve its internal and external economic situation (Adams et al., 2008; Chapter 12).

⁵³ The economic policy of the Japanese Prime Minister is widely elaborated in the literature on economic and political science. See as examples the works of Wakatabe, Mayger-Reynolds, McBride-Xu and many others, used also in this study.

⁵⁴ In a paper entitled 'Lessons of the Lost Two decades of the Japanese Economy' (2011) Ichimura summed up the causes of decline and unsatisfactory functioning (Ichimura, 2015; Chapter 2).

long-term interest and sacrifice these long-term needs for more immediate profits. This concerns both political and economic factors.

Some tools, as TPP-11, could provide the opportunity for getting closer to each other, although this (or any other similar scheme) hardly substitutes the influence and weight of the USA in re-balancing the regional order and power relations.

These developments might enforce Japan to drastically reconsider its national security strategy⁵⁵, including its economic relations with ASEAN and its members. It is clear that these two actors are interested in strengthening themselves as much as they can in order to defend their security interests and also to see the growing strength of their partner (Japan and ASEAN) as an additional guarantee for their own ability to withstand the weakening of their economic (and political and security) position. However, the question arises once again: how can they overcome the contradiction between their short and longer term interests? Japan is interested in forging an ASEAN Economic Community, although a stronger organization might make its bargaining position weaker. ASEAN should be interested in the stabilization and growth of Japan as a possible ally in its contest with China, however, it is dubious whether it can really get from Tokyo what it can receive from Beijing, and perhaps at better terms.

While the future of the Japan-ASEAN relations depends on a great number of 'internal' issues, it is still difficult to hide that seemingly none of them is as important and has a more serious impact on the progress ahead than the China factor.⁵⁶ As mentioned above, the local states have different opinions regarding the handling of the China-factor. In this context, local actors are inclined to point at the rivalry of these two giants though they already know that the PRC and Japan are not at the same level anymore. To be sure, they can see that Abe Shinzo is ready to resist China, and in this respect ASEAN can rely on Tokyo. The question is for how long?

⁵⁵ For a short description of some of the components of this question see Singh (2017).

⁵⁶ It is clear that the future Southeast Asian position of many actors, from India to Australia, is linked to the role assumed and the behavior conducted by Beijing. Japan and the PRC are the strongest contenders here and the success or failure of Japan to counterbalance the weight and influence of China might have a decisive effect on the positions of others, inside and outside the region.

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Japan's Integration Efforts, with Particular Attention to the Japan-EU Free Trade Agreement*

Pál Majoros

1. Introduction

In the 1970s and for many years, people used to talk about the triple world economy, the triad, in which, the United States and the European Community, and Japan with its leading role in Asia and its economic partner were referred to as the third pole. It came about because in 1980 Japan produced nearly 10 percent of the world's GDP. The attention of the European Community also turned to Japan, especially as Japan was the integration's third largest export market and second largest source of imports until the millennium (by and large the third most important partner after the US and Switzerland).

Japan used to be the most important partner of the European Union on the Asian continent. From being the second-third partner of the EU-15, Japan shifted to be the fifth partner of the EU-25 in 2006 (China overtook Japan in its total turnover in 2003 and Russia in 2004). In case of the EU-28, it is only the sixth or seventh partner. There are several reasons for this. On the one hand, the crisis in Japan in the early 1990s, which further deepened in 1997: economic growth rate around 0-1 percent, foreign trade did not expand to the same extent as before; it stagnated (export growth rate slowed down, while imports increased over several years). Secondly, the rapid economic growth of Far Eastern competitors over Japan has to be recognized. China and South Korea need to be highlighted, but several ASEAN (Association of Southeast Asian Nations) member states have stepped up their economic and trade relations with the European Union to a much greater extent than Japan. Finally, it is worth pointing out that Japan had previously built up its foreign trade relations primarily with the EU-15 Member States, and established only very deliberate and slowly developing trade relations with the new members, so its weight in total foreign trade decreased.

The world changed with the millennium: the Soviet Union dissolved, and the group of socialist countries ceased to exist. China has once again become a major player in

* Translated by Amadea Bata-Balog

the world economy and world trade, and an important competitor to Japan in the Far East. Today, we cannot talk about the triad in the same sense as 40 years ago. It is no longer possible to treat the world economy as the “playing field” of the former three prominent players. China has become a new player among the Three, and India is getting stronger and growing in influence. Furthermore, let’s not forget about Russia, which, although economically is less powerful, remains one of the world’s largest energy exporters (and is still a major military power).

As a result of the re-regionalism of the ‘80s, integration tendencies developed in the Far East too: China and Japan, however, are late-starters in integration efforts, belonging to a so-called group of late-comer countries. Japan’s economic and financial problems forced its regional and global activity to be restrained, and China had to deal with its internal problems in the first place. China was the first to start off in the field of integration efforts, followed by Japan. China’s expansion is facilitated by strong capital exports, followed by the “One Belt, One Road” initiative announced in 2013, which is significantly more than a simple infrastructure development project.

In addition, we must talk about the United States’ foreign economic policy over the past two years. Trump’s “America first” economic policy places strong emphasis on building bilateral relations instead of the previous multilateral approach: they reformed the NAFTA¹ agreement, terminated the TPP (Trans-Pacific Partnership) contract, and suspended the TTIP (Transatlantic Trade and Investment Partnership) negotiations with the EU. The US using its economic power, shapes its bilateral relations and lives with its economic power and occasionally abuses it.

After the turn of the millennium, the European Union and Japan have also faced serious challenges: the resolution of their internal concerns and the problems of their external relations are a difficult task, which has been placing a heavy burden on both parties. The European Union has experienced a difficult period: 13 new Member States had to be merged into the framework of integration; the present threat of Brexit; budget disputes taking place; and migration problems strongly divide Member States and sometimes protectionist tendencies can be observed in their relations. Japan faces other types of difficulties, but important challenges as well: after the 1997 crisis, the economy could still not be dynamized, thus losing its position in the world economy and world trade. It is a particular problem that in the ‘90s, it did not open up enough to the new democracies in Eastern Europe, and now this is visible in its EU relations.

¹ North American Free Trade Agreement

At the same time, Japan and the European Union are committed to developing partnerships because they are extremely important partners in both commercial and capital relations. As the most decisive players in the world economy, they are linked by special interdependence and global responsibility. They both support the strengthening and further development of the global trading system, even at the expense of occasional escalation of conflicts of interest with the United States. Their reciprocal relations have intensified in recent years, and they are interested in deepening their relations, both economically and politically. The EU wants to be present in the expanding Asian market partly through Japan, and Japan wishes to reduce US influence in the region through the strengthening of its partnerships with the EU.

In the Triad relationship, the European Union avoided formal bilateral agreements in its relations with both Japan and its key partner, the United States of America. Their institutionalized bilateral relations were intended to be nurtured at the highest level by the EU-Japan Summit held once a year, and at meetings held twice a year at ministerial level. At the multilateral level, several forums allow contacts to be maintained, so politicians and economic professionals can assemble at ASEM meetings every two years, G7 and G-20 meetings every year, and forums of UN, OECD, WTO, and politicians.

Although, integration ideas between the former triad and the new prominent players existed, the competition was mostly the winning attitude in the dialectics of competition versus cooperation. Smaller and bigger agreements were made, but comprehensive free trade agreements between the "big ones" to date only one has been concluded: between Japan and the EU.

The main question of this study is around what has happened in Japan, which had no bilateral free trade agreement with a country (or group of countries) until the millennium. What are the motivational factors that displaced Japan (and indeed the entire Far East) from integration apathy? Are there any common cultural, civilization roots that in the early 21st century have caused strong integration tendencies to be launched in the region, or are strong economic factors behind it? Among the world's leading powers, why was the EU the first to conclude a bilateral free trade agreement? What historical, political, economic background does the agreement have?

2. Japan's Integration Efforts

The millennium reached Japan in a difficult situation: it was characterized by an economic downturn, its former partners were opening up to other partners, micro-integration links were loosening with ASEAN companies, China was getting stronger (also admitted to the WTO), and Japan's controversy and debates with the US were getting deeper and deeper. The aging, declining population has been a social problem; on the one hand, the working-age population decreased, so there have been signs of labor shortage, but on the other hand, the increasing volume of pension expenditures has been affecting the budget. Another problem in the increasing well-being has been the alienation of the younger generation from the national (including Confucian) traditions, the low level of social reproduction and its decreasing tendency. Just at the time, educated Japanese people were realizing that China, after being despised for a century and a half, is the root of Japanese culture too.

Globalization was interpreted as the world opening up, which was an opportunity for Japan, however, they were not opening up, did not allow foreign capital, occasionally applied the highest tariffs of the developed world (e.g. rice, other foods), and they closed up. Japan had difficulties in adapting to the changed international environment, e.g. could not really break into the East and Central European region which was open for globalization. It was a major change that China which was censured before, first in terms of exports and then production, got ahead of Japan.

Japan's response has been peculiar: it is characterized by growing isolation in the fields of culture and civilization. They emphasize the Japanese cultural identity, its uniqueness, its distinction from both Western and other Asian cultures. (However, Confucianism is an important link between Asian civilizations). They consider their previous economic results as the result of their civilization, which stands above Western culture that is culturally and socially declining (Huntington, 2002). Japan has moved away from Western (USA) thinking, turning towards Asia. They would like to preserve the economic superiority of Asia, including Japan's leading role in it, in such a way so that the growth pole of the 21st century shall be East Asia, and therefore they open up economically. This is partly due to the compulsion; due to the 1997-98 crisis, foreign capital must be admitted, and the economy's ideology must be changed. It is a fact that Japan, which has previously been excluded from all integration, will open up: it allows foreign working capital and is starting with an integration strategy. Thus, a combination of civilization and economic constraints are the triggers for integration initiatives.

The post-millennial period was the beginning of the opening for integration: actions were taken to save Japanese big companies in trouble due to crises (1997-1998, 2007-2009), allowing foreign direct capital inflows. However, inbound capital has been still significantly less than outgoing capital. In Japan, FDI accounted for just over 4 percent of the GDP in 2016, which is a remarkably low level for the world's developed and less developed countries as well. At the same time, the outflow of capital has been USD 120-150 billion a year in recent years, making Japan the world's fourth largest capital exporter (UNCTAD World Investment Report, 2017). The consequences of the 2008 global economic crisis are the stagnation of world trade, a significant drop in demand in developed countries, which has also led to further easing of micro-integration relations in the East Asian region.

A far-reaching step in the past few years has been the so-called Abenomics, associated with the Prime Minister of Japan, Abe Shinzo, according to which the economy is the most vital priority. The program identifies three main directions: monetary easing, budget loosening, and structural reforms in all areas of the economy. The new economic policy has also triggered changes in Japan's foreign policy. In addition to the earlier multilateral approach, bilateral thinking has also emerged: see the failure of the WTO Doha Round; the competition between China and Japan for Asia's leading role. The former US integration strategy has also contributed to a change in strategic thinking: the TTIP started between the US and the EU, and later the TPP negotiations motivated Japan as well. In 2017, the Trump government backed out from these, but Japan continued its talks with the EU. At the same time, at the Asia-Europe Summit (ASEM), the central point is the expansion of trade relations, i.e. the EU would also like to expand its foreign trade relations with the countries of the South East Asia region. From Japan's point of view, the development of trade with the EU is clearly positive, but the EU's stronger presence in the region could jeopardize Japan's interests. Therefore, it has also become a priority for Japan to bring its formerly micro-integration and corporate relationships into national, international (inter-state) relations (a key motive for integration with the countries of the region). It is important to note that, under GATT / WTO rules, exemption from customs duties in the free trade area should not be extended to other WTO members. The WTO operates as a general system, but the actors take advantage of loopholes to improve their own situation. Countries can expand their trade in products and services through such bilateral agreements, preserve their market advantages in geographically close countries, and secure their raw materials and energy imports. This has also played a role—still does—in the fact that almost all countries and integration of the developed world (EU, USA) are using such a tool to improve their market positions.

Japan does the same: in its case, besides its economic role played in the Asian co-operation, strengthening political presence, and improving cooperation with neighbors based on mutual trust and benefits may still be a matter. Furthermore, in its competition with China, Japan wants to improve its position to become the leading economic power in the region, in order to broaden its room for maneuver with new bilateral or multilateral agreements.

Japan has concluded comprehensive economic cooperation agreements with a number of countries in the region to preserve or improve its trading positions safely. Agreements are not uniform, the Japanese economic diplomacy approached issues pragmatically, and the content, scope, and extent of contracts are different. Trade in goods and/or services, rules of origin protection, protection of intellectual property rights, investment protection, double taxation clauses have also been included in the agreements (this can be explained by the fact that the concept of RTA (Regional Trade Agreement) or EPA (Economic Partnership Agreement) are becoming more common in the literature, which are slightly different from previous terminology of FTAs (Free Trade Agreement). The purpose of the study is not to analyze the individual agreements in detail (the text of the agreements can be found on the website of the Japanese Ministry of Foreign Affairs). I just highlight one thing: the learning process is recognizable. Initial agreements were strictly industrialized free trade agreements, they expanded, changed in the economic field, and in later agreements, civilization, social (e.g. environmental) issues appear too.

3. Japan's Free Trade Agreements

Japan had 17 signed regional trade agreements by the end of 2018, the EJEPA with the EU entering into force in the beginning of 2019, and the CPTPP with the Pacific-rim countries, which have not yet entered into force. Japan has the following free trade agreements: ASEAN as a multilateral organization, and separate agreements with its seven member states; from the group of developed countries (OECD) agreements with Australia, Chile, Mexico and Switzerland; from the developing countries agreements with India, Mongolia, Peru; and an expected agreement with the EU; and the Pacific-rim countries—the CPTPP, the Trans-Pacific Partnership agreement.

Table 1

Japan Regional Trade Agreements (2018)

Partner	Date of signature	Date of entry into force
Singapore	January 2002	November 2002
Mexico	September 2004	April 2005
Malaysia	December 2005	July 2006
Philippines	September 2006	December 2008
Chile	March 2007	September 2007
Thailand	April 2007	November 2007
Brunei-Darussalam	June 2007	July 2008
Indonesia	August 2007	July 2008
ASEAN	April 2008	December 2008
Vietnam	December 2008	October 2009
Switzerland	February 2009	September 2009
India	February 2011	August 2011
Peru	May 2011	March 2012
Australia	July 2014	January 2015
Mongolia	February 2015	June 2016
CPTPP	March 2018	Not yet in force
EU	July 2017	February 2019

Source: Regional Trade Agreements Information System (RTA-IS)
 [online] Available form: <http://rtais.wto.org/UI/PublicAllRTAList.aspx>

In the past 15 years, Japan has paid special attention to the development of integration relations in the region. Initially, they were negotiated bilaterally with individual ASEAN countries (with Singapore, Malaysia, Philippines, Thailand, Brunei, Indonesia, later Vietnam—all being members of the Asia-Pacific Economic Cooperation (APEC)) and then with the integration organization ASEAN. In a broader sense, the region includes Mongolia and Australia. Thus, 10 out of the 17 agreements concern the region, which also shows the importance of cooperation with countries in the region.

In recent years, ASEAN, in particular the Indochina region, the less developed countries have been the key areas for the regional expansion of Japanese capital. Beyond the geographical proximity, this is due to a growing lack of labor force in Japan and wage differences between countries. Therefore, they have started the deployment of labor-intensive production in low-wage countries (Vietnam, Laos, Cambodia and Myanmar). Japan is the second largest FDI source for ASEAN countries.

Trade in goods between ASEAN and Japan has stagnated in recent years, with ASEAN export surpluses. Japan has a 10 percent share in ASEAN's total merchandise trade, making it ASEAN's second largest partner (ASEAN Economic Integration Monitor).

There is a good complementarity between the bilateral and the multilateral agreements signed with the countries. Japan also has a free trade agreement with four OECD members. Mexico was the first OECD member to have an agreement with Japan in 2004 and then in 2007 it signed with Chile. Both agreements are concerned with trade in goods and services, but also contain chapters regulating capital movements. Both countries are located on the Pacific coast, and their other common feature is that both are members of the APEC cooperation.

Only in 2014 was the free trade agreement signed with Australia. The agreement deals with the free movement of capital alongside trade in goods and services. Trade in agricultural and fishery products is a priority in the agreement. (Australia is also APEC member state.)

Switzerland was the first European country to sign a free trade agreement in 2009, which covers goods and services, product origin rules, intellectual property rights and capital movements. An interesting fact is that Switzerland is one of the few European countries to have a trade surplus with Japan (due to exports of Swiss luxury products).

Japan also has free trade agreements with three developing countries: with India, Peru and Mongolia. The importance of the free trade agreement with India is that it has the world's second largest population, it is the world's third largest producer respective of purchasing power parity, and it has a large number of middle-class consumers, whose consumption creates a large market for Japanese products. The abundant, cheap workforce thus can help Japan solve its relevant problems. It is worth noting that India has no free trade agreement with China.

In Peru, the free trade agreement was born in 2011, aiming at the free movement of industrial products and the gradual reduction of customs duties (agreement between China-Peru, 2009). Questions on trade in services and free movement of capital are yet under negotiation. (Peru is also an APEC member state.)

In the case of Mongolia, the abundant raw material sources motivated the FTA (2015), and here they preceded China because they do not have a similar agreement with the country.

3.1. Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP)

The Comprehensive and Progressive Agreement for Pacific Partnership (CPTPP) was established under the former TPP agreement. The TPP was signed by 12 countries in 2016: the US was also a signatory, but in January 2017, President Trump quit the agreement. After their pull out, 11 states stayed. (In the literature, the cooperation was also referred to as TPP-11 before signing the new agreement).

Japan, following the withdrawal of the US (after a few months of hesitation), decided to continue negotiations. Therein, the RCEP (Regional Comprehensive Economic Partnership²) negotiation initiated by the Chinese—serving China’s aspirations for dominance, (a win-win game, meaning that all parties win, but China wins the most)—plays a notable role. Japan should not be left out of this partnership, but in TPP-11 it has clearly gained the leading position, taking it from the US.

The CPTPP can be briefly defined as the integration of 11 countries on the two shores of the Pacific Ocean (7 Australian, Oceanic, Asian and 4 American) into a large market based on commonly agreed rules that already take into account the phenomena of the digital era. The CPTPP-11 market has 510 million inhabitants. This is the first comprehensive and high-level integration agreement that has been negotiated with countries that are geographically distant, with significantly different levels of economic development (Japan with 38 000 GDP per capita, while Vietnam with only USD 2164), at the cost of compromises.

CPTPP member countries accounted for 13 percent of the gross world product in 2016, 15-15 percent of international trade (exports and imports), and they are a significantly smaller economy than the US-based TPP-12 (38 percent of world production).

The CPTPP, as a new generational free trade agreement, summarizes all the features of the previously mentioned FTAs, TRAs and EPAs. It is an industrial free trade agreement (i.e. member states eliminate tariffs and other barriers to trade—due to the countries’ different levels of development, they do it using different schedules, that is, developed countries eliminate them practically at the entry into the agreement, while the less developed ones do it with a few years delay, so this part is asymmetric),

² ASEAN+6 (10 ASEAN countries + China, Japan, South Korea, India, Australia, New Zealand). This cooperation is encouraged by China—as it has been left out from the CPTTP,—which could increase its economic and political role in the region.

and an agricultural preferential agreement, but trade is free in more product groups, including a substantial part of food products. The agreement includes the freedom to trade in services, as well as the free movement of capital (but not the free movement of labor). An independent chapter covers public procurement, government procurement, and competition regulation. The CPTPP pays special attention to the protection of intellectual property rights, food safety, and drug trade. They also discuss environmental regulation (in the context of international trade). As Kruppa (2017) has noted, this new generational agreement based on its content, could be a “gold standard” for free trade agreements, meaning that it may serve as a model for other cross-border international integrations. The Philippines, Indonesia, Thailand (ASEAN and APEC member countries), South Korea and Taiwan (APEC member states) also show interest towards the CPTPP-11.

From the point of view of Japan, it is clear that eight out of the ten countries already have a bilateral free trade agreement signed earlier (Australia, Mexico, Chile, Peru, Singapore, Malaysia, Vietnam, Brunei), such an agreement is negotiated with Canada, and only New Zealand has been left out from this circle. Since many have bilateral free trade agreements between themselves, CPTPP seems to be bringing bilateral agreements to a multilateral level.

We shall also briefly discuss the role of APEC. With reference to the subject matter of the study, it must be indicated that there are several operational bilateral and multilateral regional integrations within APEC (including NAFTA and its successor; AFTA, bilateral agreements within ASEAN, free trade agreement between Australia and New Zealand). Examining Japan in particular, it can be seen that Japan has free trade agreements with 11 countries (with 7 ASEAN members, Australia, Chile, Mexico and Peru) out of the 20 other APEC members, and are in similar negotiations with South Korea, China, and Canada. It has no such agreement with the US, Taiwan, Hong Kong, New Zealand, Russia and Papua New Guinea. CPTPP raising bilateral and multilateral agreements to mega-regional / plurilateral level also helps transform APEC into a free trade zone, but we have to note that Russia and Papua New Guinea are not included in the regional cooperation (they have no bilateral agreements).

3.2. Japan-European Union Free Trade Agreement

The free trade agreement concluded with the EU, is as important as the CPTPP agreement for Japan. (In the literature, they refer to it as JEFTA; Japan-European Union Free Trade Agreement or EJEPA; EU-Japan Economic Partnership). The free trade

negotiations lasting for four years were successfully completed by the summer of 2017, the parties signed the agreement, and after the ratification process, the agreement could enter into force in early Autumn 2019. Considering its content, logic, and structure, the CPTPP and JEFTA agreements contain many similarities, but differ significantly in one field. The CPTPP agreement is multilateral, while JEFTA is a bilateral agreement. (Despite the fact that several countries are involved in the latter, as a result of the EU's common commercial policy, the Community has been involved as a negotiator on the consultations.)

In Japan and in the EU-28 member states approximately 640 million people live, all potential consumers. Together, they account for 30 percent of world production, with a world trade share of 39 percent (EU internal traffic is not included in the data). For the EU, Japan is the sixth most important export and import market, while Japan is the EU's third most important partner. These facts highlight the significance and practical importance of the contract. The Community and Japan are also very much looking forward to the agreement.

Free trade covers industrial products and services and a significant part of agricultural and food products. The agreement covers environmental protection (in the spirit of the Paris agreement on climate protection), consumer protection, competition policy, public procurement and protection of intellectual property rights, but includes for example protection of geographical indications (e.g. Tokaj aszú). The European Union operates its website³ in focus of the topic and the text of the agreement can also be found here⁴.

In the continuation of the study, the history of relations between Japan and the Community will be outlined, the way to the free trade agreement will be presented, and then the agreement will be briefly introduced, its advantages, disadvantages, and the expectations of the member states, especially of Hungary.

³ The European Union website: [online] Available form: <http://ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/>

⁴ Text of the EU-Japan Economic Partnership Agreement: [online] Available form: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

4. The History of EU – Japan Relations⁵

The development of Japan and Western European relations has over 150 years of history. After the breaking of the Japanese isolation in 1853, the Emperor recognized the advantages of the modern Western economy (advanced production tools, weapons, means of transport; steam boats, trains) and put them to serve the benefit of Japan. The period of modernization began in 1868 (Meiji Restoration), at which time the most advanced power of the world was England. In the course of modernization initiated and controlled by the emperor, the warlords and landlords who were appointed acquired English technology and established modern industrial production with the help of their accumulated wealth. It was a very special way of transitioning from feudalism to capitalism, former feudal lords became tycoons, and future trading house leaders. However, rapid industrial development required raw materials and coal (energy carriers). There was little of these on the island. On that basis Japan started a policy of conquest motivated by a shortage of raw materials in the oceanic archipelago, and then conquered Taiwan and Korea under the weakening Chinese rule. The period up to the Second World War, in addition to rapid economic and technical development, resulted in foreign economic opening, and Japan became the real power of the region in economic and military terms. Germany's European aspirations (living space theory) also appeared in Japan in the 1930s. There was a need for raw materials, energy carriers and cheap labor. China, which was so weakened by then, became the target of conquest (1931 Manchuria, 1937 additional Chinese territories). However, Japan's Far East hegemony was threatened by the presence of the US in the region, this partly led to the attack on Pearl Harbor and the entry into World War II. In this tight hundred years, it was the British relationship being determinative in the decisive economic sphere and then the influence of the German Empire that was significant in political terms.

4.1. Japan and Western Europe in the Years after World War II

The defeat in World War II shook the country, the superiority consciousness was damaged fundamentally. The significant financial losses, the troubles caused by the Japanese returning from the colonies, the American humiliation of Japan (the emperor had to abandon the earthly divine title), which led to a specific civilization problem: is not Japan the chosen country? The losers were not involved in the formation

⁵ To reveal the history of the relations I used one of my previous studies (Majoros – Imre, 2006; and referenced writings of J. Gilson; R. Albrecht and C.M. Dent).

of the new world order after World War II—including Japan—, but after a while the Soviet Union and the Eastern European countries did not either participate in the establishment of the new international institutional system (IMF, IBRD, GATT, NATO). The world order thus formed was essentially serving the US's and Western Europe's interests—the so-called West—and represented the interests and values of Western-type civilization. After World War II, economic relations of Europe and Japan were characterized by a lack of mutual interest. In 1945, Japan ended up as a depleted and defeated country coming out of the world war. As in the countries of Western Europe, they also had to face the consequences of the long war on the islands of Japan, and the rebuilding of the ruined economy and society had to begin. To solve similar problems, the two regions had different solutions, but in both cases the role of the United States was crucial.

The Japanese and European policies of the United States were both influenced by the Cold War situation. Japan's economic recovery began with the Allies' occupation from 1945 to 1952, which again ensured American influence on Japanese politics over the coming decades⁶. Allied forces launched a demilitarization and democratization program to prevent the repetition of Japanese war actions, set up a new and democratic government and helped in the building of the economic and social infrastructure. Japan's importance truly grew after the victory of the Chinese Socialist Revolution (1949). The formation of the Soviet-Chinese People's Republic (Moscow-Beijing) axis led the United States to make Japan a strong ally. In addition to the significant two-way trade, the two countries were linked by economic aid and cooperation programs, and from 1951, under the US-Japan security treaty, defense for the island was also provided by the United States. In 1952, Japan regained its independence and, as a member of international organizations, wanted to become involved in the circulation of world trade and world politics. Efforts in that regard were also supported by the United States: in 1955, Japan could become a GATT contracting party thanks to US support, and it gained entry to the United Nations in 1956, and to the OECD in 1964.

The United States tried to prevent the economic collapse of European governments and the spread of communist regimes in Western Europe with the help of a USD 13 billion aid under the Marshall Plan disbursed from 1948 to 1951. At the same time, the Marshall Plan and OEEC (European Organization for Economic Co-operation) consisted of sixteen countries initiated for the distribution of the aid, was dedicated

⁶ The winning European allies did not participate in Japanese affairs, they treated them as they were beyond their own competence and they transferred the leadership of the Allied forces to the American troops.

to open the way for closer cooperation between Western European countries, thus both reducing the financial commitment of the United States to the reconstruction of Europe in the future, and the risk of a new outbreak of war. The cooperative efforts were also expressed in terms of defense, in addition to the economic ones. As a result of the party-state systems built in the countries occupied by the Soviet Union, the NATO Treaty, which incorporated Europe into the North Atlantic defense structure, was launched in 1949. By the beginning of the fifties, European politicians recognized that in the emerging bipolar world, Western Europe could only increase its political and economic influence through unification. Schuman's French Foreign Minister's proposal resulted in the signing of the European Coal and Steel Community Agreement in 1951 and further steps towards integration led to the signing of the Treaty of Rome on March 25, 1957, which established the European Economic Community (EEC). While the foundation of UN-like organizations—both to European and Asian winners and losers of the Second World War—provided new forms of dialogue, actually it gave little impetus to the development of any transcontinental dialogue. At this time, for historical reasons, both Japan and Western Europe built multi-faceted relationships with the United States. The lack of close historical threads, mutual interest and common security issues, the weakness of not knowing each other, and the emergence of stereotypes led to Japan and the European Community not becoming natural partners in the post-war years.

4.2. The Fifties: Trade Relations Serving US's Interests

During the fifties, the United States offered tariff preferences to European countries that—following American behavior—opened their markets to Japanese products. The United States supported the access of island state's products to the European market, because it resulted in the recovery of the Japanese economy, the rise in living standards, and thus the strengthening of Western democracy in Asia, which was essential for political and strategic stability. The United States also favored the country's GATT accession because it concealed additional export opportunities. However, the growing trade disputes between Japan and the United States and the negative experiences before World War II have made European states distrustful against low-wage Japanese products and commercial practices of the island. Because of the potential Japanese threat to the European textile industry, Britain, France, the Netherlands, and Germany (GDR) initially did not support Japan's GATT accession⁷. Even later, they

⁷ Japan first applied to the GATT in 1952, but it was only three years later that it could join due to the protest of the above states.

only agreed to the accession with the provision of Article 35, according to which they could suspend the application of the Convention at any time selectively in relation to Japan. In this mistrustful atmosphere, the United States to no avail tried to act as a mediator in European-Japanese relations. While Europeans were afraid of Japanese commodity dumping, the island was disturbed by the adverse effects of the introduction of a common external customs on trade with Europe and on every forum it fought for the abolition of restrictions on its export products and struggled to suspend the application of Article 35. Japanese concerns have been further aggravated by the measures taken by some of the European Member States. In Germany and Italy, for example, even after the GATT accession, import restrictions for several Japanese commodities were maintained, and in 1958, Belgium introduced another twenty-four restrictions on imports from Japan. Many subsequent diplomatic efforts have led to the lifting of restrictions.

Interestingly, during this period, issues of a political nature were mainly on the agenda in the matter of relations between Japan and Europe. This can be explained by the fact that the drafting of a common position was less problematic, for example in relation to Soviet actions and commercial disputes. The years immediately following the war are distinguished by this shift of political focus from the coming decades, when relations were dominated by trade issues. The political dialogue between Japan and Europe only started slowly reappearing from the 1980s.

4.3. The Sixties: Bilateral Trade Agreements between Member States and Japan

By the 1960s, Japanese exports increased, and the United States began to consider Japan as a potential economic rival. While it remained a key issue to the US to gain the widest possible access to the Japanese market, it no longer actively promoted the deepening of bilateral relations between Japan and Europe. Relations between the two sides have remained minimal as long as no demand arose to shape them independently from American political interests.

In 1965, after Japan had achieved several of its previous goals (e.g. OECD membership), a new turn in Japan's EC policy took place. The goal was less and less the elimination of discrimination, but the focus shifted to export promotion, and a few years later to boosting European capital investment. Meanwhile, in Japan, economic restructuring took place: light industry products were increasingly replaced by mechanical engineering products (ships, cars, new technology), and high-tech

products represented a high proportion. The development of the Japanese and Western European economies in the 1960s—being unbroken until the 1973 crisis,—provided a favorable background for economic relations. The volume of trade increased, although most EC Member States continued to issue import quotas for some of the Japanese products. There was a striking difference: while Japan supported emerging, developing, modern sectors, and the improvement of their export ability, the Community protected aging sectors, primarily to maintain jobs (e.g. steel industry, shipping industry). Economic discrepancies soon made meetings between Japanese and European MEPs unavoidable. These bilateral discussions became even more common during the decade, as Japan had increased its participation in the work of many international organizations and institutions where European states (e.g. UN, GATT) were represented, and also because of the possibility of the UK joining the EC, Japan began to attach greater importance to European relations. Rapprochement can be explained by the temporary deterioration of relations with the United States, as well as by the new Prime Minister, Ikeda, who was more open to Europe in terms of his foreign policy than his predecessors.⁸

Japan's rapid economic growth and significant imports in Europe also increased the need for a common position regarding the island state. However, progress was hampered by discussions about the role of the Commission.⁹ Thus, individual Member States started bilateral negotiations with the island state. On July 1, 1960, Germany was the first country in Europe to sign a trade agreement with Japan, in which it gave the most favorable treatment. The Benelux countries concluded a similar agreement in 1961 and waived the application of Article 35 in exchange for the proposed safety clause, but for twenty-eight items (e.g. textiles, porcelain products, cutlery), individual quotas were still maintained. The British gave up the privilege of Article 35 in 1963 after concluding a trade and shipping agreement with Japan which included two safety clauses. The French government maintained its stiff position for a long time: it only concluded an agreement with the island state in 1964, under the same conditions as the British. In the second half of the sixties, regular political meetings were held between Japan and some European Member States. In 1963, for the first time, Japan and the United Kingdom, Japan and France, along with Japan and Germany, held

⁸ In July 1962, Japan released its first "EEC policy". The Japanese government announced that it would not apply the preferential treatment of the liberalization program to countries that continue to discriminate against Japanese products.

⁹ At the beginning of the sixties, the Commission made a number of attempts to raise trade issues to a unified European level, but its efforts were not successful due to the resistance of some Member States (primarily France), which believed that if the Commission had a coordinating role in commercial matters, it would jeopardize the nation-state interests.

talks on regularizing foreign minister meetings. Two years later, similar negotiations began between Japan and Italy. By the time, all EC Member States had granted the most preferential treatment to the island state, and the Commission stated that all obstacles had been removed from the EC-Japan joint convention, which would contain a single safety clause and abolish all previous bilateral agreements. However, due to protests by the French and Italian government, this could not be realized, so bilateral agreements between the Member States and Japan remained in force.

On the other hand, the opportunity of trade negotiations at the European level was not clearly welcomed in Japan. They were afraid that the list of restrictions for the transitional period negotiated by the EC would be the same as the broadest list then in force, and that the provisions of the safety clause would have to be extended to Germany and Italy. Although direct business relations between Japan and Western Europe had become increasingly important, owing to the role of the island state in the world economy, more and more European politicians had felt the need for a unified position. During the sixties no significant progress was made on this issue. In the second half of the decade, the intensity of political relations declined, and negotiations on specific economic issues and problems took place in sectoral forums. The downward attention from the Japanese side was by reason of the miss of British EC accession and the bilateral trade agreements that entered into force, as well as the behavior of the Japanese socialist opposition, which increasingly criticized the Western orientation of the government. As a result of repeated failures, the Japanese issue was removed even from the Commission's agenda for a while. Still, this period cannot be considered inefficient: mutual diplomatic recognition had been achieved and structures had been built that later enabled the further development of relations.

4.4. The Seventies: Intensifying Trade Disputes and Slow Institutionalization

The EC Common Commercial Policy entered into force on January 1, 1970. The need for its introduction was explained by one of the main objectives of the EC, the creation of a customs union, the essence of which was that while trade between Member States eliminated customs duties, a common trade policy with third countries, including a single tariff system, was applied. Although from 1970 onwards, Member States could no longer conclude new bilateral trade agreements with third countries, some elements of the common commercial policy could not come into effect immediately due to previous agreements in force. There was a rule that allowed national measures

to be maintained until they prevented the development of a common commercial policy. However, many of these national measures were directed against Japan and hampered the EC's attempts to develop a unified system of trade rules for the island state.

In the 1970s, four factors influenced the development of EC-Japan relations:

- significant changes in world economic conditions (end of Bretton Woods system, drastic increase in oil prices, etc.);
- EC changes (customs union, enlargement, development of new Community policies, etc.), transformation of the community's global economic and political role;
- the significant Japanese trade balance surplus;
- institutional development in Japan-EC relations.

In the '60s, '70s, Japan strengthened industrially and economically as much as it appeared as an increasing competition in the market of the European Community with its products. Member States realized that their new competitor was also a potential trading partner, and a cautious contact between the two economic areas began. Initially, conflicts and hostilities emerged as a result of the flood-like influx of Japanese products, the EC applied anti-dumping duties and import quotas against Japanese imports.

While in the early 1960s there was still a trade balance between Japan and Western Europe, from 1969 the EC's lack of trade with the UK was perpetuated. The Community then realized beyond doubt the economic importance of Japan. In September 1970, trade negotiations with Japan began. The European Commission insisted on the safety clause for all Japanese products, but the Japanese government would have liked the trade with Western Europe to be in accordance with GATT rules and that Member States could only apply the system of safeguard duties in the event of a serious threat to domestic products.¹⁰ Despite ongoing disputes and negotiations, Japanese exports to Europe steadily increased due to the Japanese companies' sales offensive. The deepening trade gap was particularly significant in some specific sectors (radio and television sets, tape recorders, electronic equipment, ships, automotive products). Japan did make some self-limiting provisions, but with little results. EC Member States (UK, Denmark and Ireland too since 1973) were confronted with Japanese commercial practices in a more and more uniform way. For the rest of the decade,

¹⁰ Meanwhile, within the framework of GATT, negotiations on the dismantling of non-tariff barriers had already started between Japan and the United States and between the EC and the United States, and in February 1972 a related treaty was signed. The so-called codes of conduct emerged from these negotiations.

talks to restore growing imbalances and Japan's self-restraint measures continued¹¹, but tensions persisted until the early 1980s. The attention of the EC during this period was primarily directed at Japanese exports to Europe and not to European exports to Japan. By the seventies, the European Community as a negotiating partner had become a potential alternative for Japanese leaders against the United States.¹² The increased Japanese attention to the Community can partly be explained by the United Kingdom's eventual membership, but the development within the EC and the increasing number of channels of communication between the two parties had also contributed to this. The deepening of integration within the Community in these years was an important factor in the development of EC-Japan relations. By the early seventies, both Japan and the EC felt the need for institutionalization of bilateral relations, regular discussion of key issues at ministerial and expert level, and thereby the insurance of the development and continuity of relations. The first meetings were held in June 1973 in Brussels and initial bodies for institutionalized relations between the EC and Japan were established. In 1974, a diplomatic mission of the European Community was set up in Tokyo, and in 1975 a Japanese mission was established in Brussels. The task of the Tokyo delegation was to promote dialogue and build a closer relationship between Japan and the EC. The visits to the UK by the leaders of EC Member States, the biannual high-level talks between Japan and the EC and the meetings of the European and Japanese parliamentarians since 1977 provided a framework for deepening the dialogue.

In spite of the steps taken to develop bilateral relations—especially in the light of the Community's trade restrictions on Japan,—however, it was clear, that a number of steps still needed to be taken towards the partnership. It was also a matter of concern that in non-trade areas, the Japanese were not convinced of the legitimacy of the EC acting as a single entity, thus attempted to resolve the problems bilaterally.

¹¹ For example, in May 1976, the Japanese government made it possible for car manufacturers in the EC to carry out the necessary safety and pollution investigations in Europe concerning their exports to Japan.

¹² The so-called Nixon shock (suspension and then termination of the dollar's convertibility to gold; diplomatic recognition of the People's Republic of China, repatriation to the UN Security Council) made Japan's political leadership uncertain and made it necessary to establish new orientations and relationships.

4.5. The Eighties: Reinvigorating Political Relations

As a consequence of the second oil price explosion, the Japanese trade balance decreased, so Japan demanded that the Community abolish restrictions on its products. The EC did not respond positively to this, as the increase in the price of crude oil had also made the Community's balance of payments negative and Japan's problems were not attributable to them. As a result of intensified discussions, new export incentive measures were introduced in Japan, accompanied by EC protests. Japanese exports had been rising sharply, and the EC deficit was too: this brought about a new crisis situation.

At the time of the '80s crisis, the yen was appreciated significantly compared to the dollar (this was not the case for European currencies), and because of the fixed exchange rate, US products became more competitive on the Japanese market. This market loss affected the EC again negatively. Since the middle of the decade, the flow of Japanese capital began towards Europe, especially to Great Britain. Trade in services became increasingly important in this period; this was very positive for the EC as it had a stable surplus in services.

During the 1980s, the EC tried to settle its relations with Japan, an important part of which would have been to develop a common Japanese policy. Disputes between Member States did not make this possible, but a program was made to settle the relationship. This consisted of four points (Dent, 1999): uniform export restriction requirements; appreciation of the yen; abolishing non-tariff restrictions; and they asked to treat the EC at least as favorably as the US. In 1985, within the framework of the OECD, the so-called Plaza Accord was born, which abolished the yen/USD bound rate. As a result, the yen appreciated, which worsened the international competitive position of Japanese products and contributed to the reduction of significant Japanese export surpluses. In the evolved situation, the Community reduced its quantitative restrictions on Japan, and Japan also made serious efforts to open up its markets to European products.

In 1986, the Single European Act was adopted, aiming to create a single market. The unifying market of the 12 countries and the increased competence of the Commission once again raised the need to create a Japanese policy. However, this did not come through.

4.6. The Nineties: The Decade of the Triad

An important change in the early 1990s was the dissolution of the Soviet Union and the change of regime in Eastern European socialist countries. The end of the Cold War changed the world economic and political environment. Formerly isolated socialist countries became a field of globalization: international capital flows were accelerating, and the former socialist world was a new ground for multinational companies. In economic terms, the world was expanding horizontally. In the field of security policy and military policy, the former common enemy image, the dissolution of the Soviet Union, resulted in a new situation even in political terms. After the end of the bipolar world order, besides the US and the European Community, Japan, as the world's third leading economic power, and the world's largest creditor took its place in the trilateral world. The '90s was a remarkable decade of the Triad: the three great powers were cooperating, occasionally acting together. The cooperating countries, however, already considered each other as competitors in the economic and commercial sphere (not as an opponent or as an enemy). They wanted to slice a larger slice of the world economy, the cake of world trade, but they could only do that against each other. It made it difficult for them to compete, and China began to develop strongly, and then India after a few years.

Japan was then facing several challenges. China's economic growth and expansion was an important factor, despite the fact that Japan had persistent trade balance surpluses with the country. Secondly, as a result of the smaller and bigger Asian crisis in the 1990s, the economic growth rate initially stagnated, then temporarily turned negative from 1998 onwards. In the "flying wild goose" model, Japan was not in the lead, and it disrupted the Asian Tiger and the Tiger Cub Economies following its example. Corporate micro-integration links loosened and developing countries with Japan's support started to create their own development strategy and established a relationship system and became competitors (mainly South Korea, but also Taiwan and Singapore). The controversial issues of Japan's US relations must be mentioned in the third place. Japan accumulated significant trade surpluses against the US since the late 1970s, consistently bought US government securities, invested in the States and by this it triggered US displeasure, which in many ways tried to prevent Japan's expansion. After the end of the Cold War alongside economic tensions, political debates were pressing the seemingly peaceful US-Japan relations. Such a debate was on the issue of US military bases in Japan (when it was found that despite the agreement, nuclear weapons had been also stored on the bases), furthermore Japan's position against the spread of US and Western human rights principles in South East Asia. In this field, Japan returned to its civilization roots, disillusioned with the Western

economic-cultural model, and they derived their previous successes from their own culture (Huntington, 2002, p. 165). For these reasons, both Japan and the European Union were transforming their foreign policy and foreign trade strategies.

The year 1991 was important in Japan-EC relations: the first partnership agreement on their relations, its political, economic and commercial aspects, signed in Hague, was a significant improvement. This included the need for regular consultation of supreme leaders, the realization of political information exchange. The agreement showed that the two sides had been mutually committed to developing relationships.

By the summer of 1994, the EU prepared an important document entitled "Towards New Asia Strategy". This community response on the changing world economy, emphasized the intensification of Asian relations. The rise of the Asian countries and their advancement in the world market had forced the long-lasting adoption of this document. Besides Japan's slowing economy at the time, China's rapid development and the ASEAN countries' trade successes, all played a role in the design of the Asia strategy. Cooperation with the fastest growing region of the world economy was important for the Community. It had made it particularly important that the US also strengthened its Asian relations. Establishment of the Asia-Pacific Economic Cooperation (APEC) as a consultation forum (1989), networking with the members, and the inclusion of China in the APEC in 1991 forced the EU to make new measures. This resulted that the importance of the political dialogue between the EU and Asian countries had also been included in the adopted document. The result of this was the biennial "Asia-Europe Meeting", the ASEM. However, the two forums are different. APEC deals only with economic-trade issues (political, human rights, and socio-civilization issues are not on the agenda). In addition to economic matters, ASEM also deals with political and cultural issues, and the ASEM often even raises human rights issues (not greatly welcomed by the Asian partners).

In 1995, as an integral follow-up of the Asia Strategy, the Community drew up individual country strategies for its most important Asian partners. Japan was the first ('Europe and Japan: The Next Step'), then it was closely followed by the Chinese strategy ('Long term policy for China-Europe Relations'). It was no coincidence that the strategies were practically simultaneously created: the EU wanted to settle and develop their relations with both Asian giants.

In EU-Japan relations, the growth rate of Japanese commodity exports slowed down slightly, but imports from the EU were even more, so Japan retained and even slightly increased its trade balance surplus. The EU trade surplus in services improved the

balance, but the Japanese surplus remained. Japan's capital exports also accelerated to EU countries, but primarily targeted the UK, the Netherlands, because France and Germany were somewhat aloof from Japanese capital.

After the initial difficulties, the existing relations between the EU and Japan became more and more favorable, the volume of trade expanded and the framework of cooperation widened. In addition to economic relations, forums for political dialogue and consultation also developed in the form of regular high-level meetings.

4.7. Relations after the Millennium: The Way to the Free Trade Agreement

The EU-Japan Action Plan for Co-operation, adopted in 2001, was an important step in bilateral relations, which other than economic and trade goals, was addressing political aspects, including peace and security issues, cultural and human rights issues, as well as global changes. The same values, common economic interests, and similar political views eventualized in the strategic partnership. However, this Action Plan also received serious criticism, Berkofsky (2012) claimed it to be too ambitious, criticized its too many objectives (more than 100 bilateral cooperation plans), there were no priority tasks, and he assessed that no concrete implementation plans, and tools were assigned to its realization.

The world was also changing over the course of time: the increase in the number of terrorist acts affected trade and capital movements. The European Union gained attention by integrating new members into the integration system. The Community was also developing its bilateral, free trade relations with a number of non-European countries (e.g. Mexico, Israel, Chile) and with South Korea from the Far East. At that time, Japan started to build its integration network.

After 2001, trade disputes were not common in economic relations because Japan had started to implement structural reforms and the EU had also benefited from the gradual lifting of restrictive regulations. Japan recognized that there was no chance of recovering from the crisis until liberalization and deregulation reforms were completed, and the long-awaited free market competition did not come to fruition, because only this could result in dynamic economic growth associated with transformation. As a result of the global crisis of 2007-2008, trade volumes were slightly decreased, but the Japanese surplus remained. Considering Japan, South Korea became a competitor in its region, and Indonesia and Malaysia also strengthened their positions.

At the 2011 summit, an agreement was signed on a new cooperation agreement, but political, security and global issues were separated, as well as economic, commercial and investment issues. The possibility of a free trade agreement between the two parties, the start of negotiations, was raised in the latter. (It is worth noting that this happened during the Hungarian EU Presidency.)

The question arises: why then? The answer is relatively simple. More and more free trade agreements are being made in the world, and the countries of the triad also entered into such agreements, what is more, negotiations were about to begin between them too. It was an additional motivation for Japan that the EU signed a free trade agreement with South Korea in spring 2011. However, spring 2011 was tragic for Japan: earthquake, tsunami, nuclear power plant disaster. The course of these events resulted in the idea of negotiating.

In November 2012, the EU Commission opened the negotiations. The first round of negotiations was in April 2013. This was followed by a further 18 rounds of negotiations (with a significant number of expert meetings in the meantime). Negotiations were closed on July 6, 2017, and the edited agreement was finalized in December 2017. This was followed by the official path of the agreement. The European Parliament negotiated and ratifying the European Parliament on July 6, 2018, and on July 17, 2018 in Tokyo, the EU signed the agreement, which shall enter into force after the ratification process.

During the negotiation period, presumably due to the delays, the EU trade deficit declined significantly in Japan.

5. The EU Japan Economic Partnership Agreement¹³ (EJEPA or EUJEPA)

After four years of negotiation, the discussions were concluded by consensus. The name of the agreement already shows that it is not a simple free trade agreement. The name of the Economic Partnership Agreement indicates that the strategic partnership goes beyond economic-trade issues. It is noteworthy that there was very little opposition to the agreement: no trade unions and no antiglobalist protests either (not like in the case of the TTIP and CETA¹⁴). One of the reasons for this was that the

¹³ EJEPA or EUJEPA are used in the literature to abbreviate the EU-Japan Economic Partnership Agreement.

¹⁴ EU-Canada Comprehensive Economic and Trade Agreement

agreement very narrowly covered the issue of regulating international investment, such as investment protection matters and investment dispute settlement cases. (This is under further discussions and negotiations.) There were no protests in Japan because the whaling and whaling trade issue critical for the Japanese party—being a sensitive area—was left out of the agreement (the EU is committed to the environment in the field of whales, while Japan stepped out of the international whaling agreement in 2018 and further increased their catches).

The significance of the agreement is that after the failure of the TTIP and TPP-12 negotiations, the EJEPA stands against protectionism and abuse of economic dominance. Both sides are committed to the liberalization of international trade and support the WTO's multilateral trade liberalization efforts. After the agreement enters into force, such positive repercussion, which might result in the renewal of the TTIP negotiations, or even the return of the United States to the (CP) TPP agreement, is not impossible.

5.1. Briefly about the Details of the Agreement

The parties agreed on the almost complete liberalization of trade in goods. This means that the tariffs of 86 percent of EU exports to Japan will be abolished (officially at 0 percent duty¹⁵) after the agreement enters into force, and then over 15 years gradual liberalization will happen, the 97 percent of products become free of tariffs. 96 percent of Japanese exports to the EU will be duty-free immediately and will gradually reach the 99 percent liberalization level after a few years. In some industrial sectors, customs will be immediately abolished (chemical, cosmetics, textile and clothing industries), while in the automotive industry (cars and spare parts) it will take 7 years.

The issue of agricultural and food products is much more complex. Both the EU and Japan are strongly protecting their agricultural and food sectors with high tariffs. Particularly in Japan, there is a very high duty in this sector. On the other hand, both parties subsidize their own agricultural sector, so state support has a strong influence on competition. (State aid issues are not included in the agreement, which is the subject of GATT / WTO agreements.) The most important sections of the technical

¹⁵ This does not mean that there are no tariffs. There are tariffs, but its 0 percent. This may be important if one of the parties had to suspend the most-favored-nation treatment for some reason. If there is no duty, there is nothing to suspend, but in case of 0 percent it is possible to reintroduce duty for a transitional period (up to 2 years).

negotiations were exactly in this area. The EU has given benefits (concessions) to the Japanese side in other areas (e.g. the automotive industry) in order to enter the Japanese agricultural market. An important result is that the tariffs on alcoholic beverages will cease at the time of entry when the agreement comes into force, while the rate of duty will gradually disappear in 10 years for pork, 15 years for beef and cheese, and 10 years for pastries and sweets and chocolates (details in the agreement). Japan has urged for market entry of its sea fish—successfully.

The agreement concentrates particularly on trade in services: in both the EU and Japan GDP the weight in services exceeds 70 percent, and it also accounts for a significant share of their trade. For us, it is important that the EU has a trade surplus in this area. In the field of postal, telecommunications and financial and insurance services, they allow market access for the other party's service provider in their territory (this is a significant step forward compared to the GATS¹⁶ agreement), providing the most-favored-nation treatment (MFN). At the EU's request, the agreement excluded audio-visual services and aviation-related services.

In addition to the significant liberalization of trade in goods and services, the agreement deals with non-tariff barriers to trade. Such so-called administrative protectionist measures and technical barriers were primarily used by the Japanese side. Health and animal health rules, food safety regulations, a proliferation of technical standards protect the Japanese market. Also, a substantial liberalization takes place in this area, significantly reducing standards and accepting each other's quality certificates. Beyond agricultural and food products, it also covers other industrial areas (e.g. the harmonization of car standards, the acceptance of the measurements by the mainland's emission indicators).

Public procurement is one of the most sensitive areas of international trade. The relevant GATT rules were already adopted in 1979, but a significant number of contracting parties only incorporated it into their own legal system when WTO was established (1995). The regulations of Europe are in line with international rules, but the facts show that, despite regulation, foreigners (non-EU members) are rarely successful in tenders. The Japanese regulations are much stricter. The agreement includes liberalization measures, for example non-discriminatory treatment in the public procurement market (in 48 small Japanese regions), but we cannot expect a substantial shift in this area.

¹⁶ General Agreement on Trade in Services

The parties affirmed the enforcement of Trade Related Aspects of Intellectual Property Rights of WTO rules in their bilateral relations.

In competition cases, they reinforced the requirements of fair and free competition in their bilateral relations. The protection and support of SMEs and corporate governance issues, including shareholder protection is an independent chapter in the agreement.

The questions of investments and capital movements are barely covered in the agreement. Here, they also highlight the need for the most-favored treatment and national treatment, and they support the promotion of bilateral investment. But this is the area where perhaps the least amount of movement has occurred. The entry to the Japanese market is very difficult due to intercultural reasons and national traditions. In other words, it is not so much the regulatory environment, but the economic and social environment that makes greater appearance of EU capital in Japan difficult. The EU initiates that a regulation similar to the Free Trade Agreements signed with CETA and recently with South Korea and Singapore should be set up addressing investment protection and investment disputes.

In the agreement, a separate chapter deals with the issues of sustainable development, environmental protection and climate change. They reaffirm their commitment regarding the Paris Climate Agreement, as well as address other social issues (such as ocean protection, biodiversity conservation, sustainable forest management etc.) in the agreement.

The relationship between the two leading economic areas is likely to continue to develop in the future, and it will become even more intense, being that both parties have an interest in cooperation and maximizing the resulting benefits in the context of global competition.

5.2. Expected Impact of the Agreement on the Community¹⁷

The examination of the expected mechanism of action is based on the almost complete elimination of tariffs, and on the substantial reduction of non-tariff restrictions. Among the economic effects, the growth of real GDP should be highlighted. Various

¹⁷ The figures in this chapter are derived from an independent study prepared for the European Parliament in September 2018 (The EU-Japan Economic Partnership Agreement).

analysts predict GDP growth of around 0.1 percent per year for the next 10 years. The expected growth is the result of various model calculations (DG Trade and Felbmayr et al., 2017), which take previous trade trends as the basis and tries to project the effects of the EU-South Korea FTA on the EU-Japan Agreement. The basis of growth is the expansion of bilateral trade, which is a consequence of the diminishing costs of trade (elimination of customs duties, lower or cessation of other obstacles). Trade flows with South Korea increased by nearly 50 percent between 2012-2018. This expansion is unlikely to occur in relation to Japan, but expert analysts expect a 23-33 percent EU export expansion and a 17-23 percent import growth in the coming years. In addition to the growth in export of agriculture and food industry, the expectations of the chemical industry, the pharmaceutical industry, the cosmetics industry and the fashion sector are important for the EU. Japan can achieve success especially in the automotive industry, but also in other engineering and robot industries. The employment effects of growth will be very modest, and the same applies to real wages (the price decrease of Japanese products may result in small-scale real wage growth, but selectively). Deepening economic-trade relations can also lead to other synergistic effects.

Such an area could be that of investments (where negotiations are still in progress). With reference to Japanese-EU relations, an interesting difference can be observed with respect to economic philosophy. Japan is a major capital exporter and strives to build a relationship by placing production in the target country. There are special reasons for this coming from the Japanese civilization. Japan is an island, the natural border is the sea, and in history it evolved that the outlander (foreigner) was not a welcome guest. This applies to foreign products (the system of establishing trading houses and the principle derived from Confucius ethics i.e. buy Japanese products, thus you protect domestic workplaces) and to FDIs. In Japan, the weight of FDI is relatively low, and the experience of foreign companies is not clearly favorable either (e.g. French and Japanese automotive cooperation). EJEPA can make the EU market even more attractive to Japanese capital exporters, which means that Japanese capital exports are expected to grow. European investment in Japan is also expected to increase, but community businesses need to be prepared for the difficulties caused by Japanese civilization, socio-economic and socio-cultural differences and business culture (Hilpert, 2018). New entrants have to adapt to the extremely high consumer demands of the Japanese market. Market success can be achieved by product innovation or with a product performing well in terms of value for money (but the cost of adapting to Japanese consumer needs will certainly entail additional costs). Market entry costs are high, so are other costs (e.g. real estate prices, rentals, very high tax rates), which can reduce the profitability of both product sales and investments.

European producers should therefore be prepared to face up to such informal market barriers that EJEPA implies. The liberalization process in Japan, the structural reforms, and the integration agreements that might lead to an improvement in the Japanese business environment may give reason for optimism.

Positive benefits for the parties could be increased competitiveness. In addition to economies of scale, reciprocal investments, the exchange of high-quality components in trade, the enhancement of SME co-operation, the debut of the fruition of Japanese supplier systems in Europe, the strengthening of digital co-operation important for the fourth industrial revolution, and the spread of robotization can be beneficial for both parties.

We must also touch on the effects of BREXIT. The United Kingdom is Japan's second most important trading partner among the EU Member States (after Germany), but most Japanese FDIs out of the countries of the Community have been directed to the UK. Economic and technical relations between Japan and the UK from the last third of the 21st century to the Second World War are part of the historical heritage. In the less successful Japan-EC relations of the '60s, the failed integration efforts of the British also played a role, then in the '70s, after the accession, the Community's relations with Japan improved. Japanese capital, in addition to the machinery industry and the automotive industry, also appeared in the service sector and is particularly strong in the financial sector. The exit of the British from the EU will have a significant impact on the effectiveness of the EJEPA agreement for the Japanese side, as it will reduce the size of the EU market for Japanese exporters and the benefits of the Single Market for Japanese investors in the UK (free movement of goods, the freedom from financial services) will cease. We do not know what BREXIT will be (if any), but the conditions of the secession will significantly affect Japanese interests. The so called hard-Brexit would be the worst for Japan. In this case, the EU-Japan agreement does not apply to the UK, so Japanese production capacities in the United Kingdom may place their products in the Community (EU-27) market under WTO regulations with customs duties, causing them significant competitive disadvantages. Any other contractual agreement is better than that.

Presently (January 2019), it seems that a part of Japan's capital, especially financial companies, are considering placing their capital on the continent. Whatever the outcome shall be, if the UK leaves the EU, it will cause economic disadvantage for Japan. In this case, the Japanese-British relationship needs to be renegotiated, it is not excluded from having a bilateral free trade agreement between the parties, but this can only yield results in the medium-long term, which will be significantly less

than the current situation, in other words, Japan's interest is to have the UK stay within the EU.

Concerning the EJEPA, while commercial-economic impacts are quantifiable, socio-political impacts are less so. The parties have highlighted sustainable development on several sides. Besides environmental sustainability, they have particularly addressed human rights, including workers' rights, women's rights, gender equality and data protection issues. (The withholding of Japan from the whaling convention was challenged by European environmentalists.) They have reinforced their political cooperation intentions, their shared responsibility for peace in the world, and the maintenance of the institutional system of former political relations.

It is difficult to measure the expected effects on the balance sheet. According to expert analysts, the economic benefits will be significant for both parties (in the case of Japan, this is influenced by the BREXIT). It is difficult to create a scale of advantages and disadvantages. Both sides will experience a growth effect. For EU Member States, EJEPA has a trade creation effect. In sectoral breakdown, agriculture, food and tobacco industry, pharmaceutical and cosmetics industries in the EU, and from the Japanese side the automotive industry, the IT sector, financial services and robotics will be the main beneficiaries. It is estimated that there will be no losing sectors, but countries that are heavily involved in the automotive sector might make minor losses (e.g. Germany and Hungary). However, the agreement will have a negative impact on some of the trading partners of the parties, which is the so-called trade diversion effect that may affect China, South Korea, Taiwan, and Singapore.

The Hungarian economy looks to the agreement with a positive expectation. It hopes that Hungarian agricultural and food industry exports can be increased, as well as counting on Japanese capital export growth. Domestic car industry may be somewhat threatened by Japanese export growth, but I am inclined to believe that it will have little effect. Suzuki has imported the most important spare parts of cars manufactured in Hungary so far, thus no significant import growth is expected. In the case of other automotive companies, market competition is intensifying, with little negative domestic impact.

EJEPA establishes the largest free trade area in the world (around 30 percent of world production, 39 percent of world trade), and this is the first free trade agreement between the world economy's high-income players. The new types of agreements of CPTPP and EJEPA can be guides for other players in world trade: action against protectionism in pursuance of more free international trade. Agreements can serve

as a model for other free trade partnership agreements, but also for developing a new set of rules for world trade, namely the reform of WTO rules. The geopolitical importance of the agreement is enhanced by the fact that it was concluded between the eastern (Japan) and western (European Union) edges of the Eurasia continent. This will increase Japan's presence in Europe, while increasing the presence of the Community in South East Asia and the Pacific. The latter is the fastest growing region in today's world, this is why its presence is essential.

6. Rather than Ending – What is the Next for Japan?

Following the turn of the millennium, Japan has also been intensively involved in integration initiatives. In the environment of the globalized new world economy, geographic distance is relative, and the practically instant access to information changes the importance of time. Therefore, new types of agreements (CPTPP and EJEPA) already go beyond traditional economic-trade issues (not just industrial free trade), and investment protection, tax, logistics, intellectual property protection segments are also included in the agreements. Moreover, environmental protection, environmental disasters, the fight against terrorism, and joint actions appear in them. Thus, at this stage of development of integration, economic community is a necessary but not sufficient condition for integration. Integration is increasingly playing a role as a community of values. The combination of economic interests and civilization values characterizes the latest agreements.

The positive global economic environment is of great importance considering the economic strategy of export-orientated Japan, which accepted the Japanese opening to the world economy despite the fact that it is not quite mutual. However, in the last two decades, the multilateral rules on international trade (WTO) have remained unchanged, and the expansion of bilateral free trade agreements has worsened Japan's chances in the world market. The 1997-1998 Asian financial crisis posed a common challenge for the countries of the region to maintain their earlier rapid economic growth. First the establishment of AFTA, then China's integration efforts forced other countries in the region, including Japan, to join this process (fear of being left out) (Kawai – Wignaraja, 2011).

Free trade agreements are also tools for competition between China and Japan. The initiators and leaders of the integration processes in the region are partners and competitors at the same time. Japan is the leading economic power of the CPTPP agreement, which is a comprehensive, high level of co-operation in almost all areas of

the economy, like the RCEP project initiated by China representing its interests (Japan plans to participate in this too).

The two Asian giants are testing each other. Japan is the largest economic power in the CPTPP, but it cannot regain its former leadership in Asia, while globally, China's expansion seems unstoppable. The decisive question for China is whether it wants to remain a global economic power or become a regional power? Participation in the integration process, the EJEPA agreement, is of utmost importance for Japan to maintain its position. (China also raised the possibility of an EU-China agreement in 2014, but the proposal did not receive support in Europe.)

China or Japan, vs. China and Japan? Confrontation, competition, or collaboration. If they choose confrontation, it may lead to protectionism, and in the long run, to the slippage of the region, and may also result in greater problems. Japan cannot come out of it well. Hence, there remains collaboration based on the common cultural, civilization roots, the true partnership, the strengthening of regional cooperation. The economic capabilities and opportunities of the two countries complement each other: Japan is at the forefront of scientific and technical development, while labor force is abundantly available in China, and the supply of raw materials is also favorable. The large and growing Chinese market is important for Japan (both in terms of production assets and the consumption of the Chinese middle class). The synergistic effects of complementary type features are invaluable in commercial and investment areas.

Although Asian civilizations have many different characteristics, they have common cultural and civilization roots, in which Confucianism proclaiming the primacy of group interests (e.g. family, company) over individual interests, is of paramount importance. In East Asia, democracy and human rights mean something different than in Western cultures. While retaining its roots in domestic civilization, Japan must return to common Asian roots. In the long run, this may be the basis for the success of efficient cooperation, which will certainly be difficult owing to their rivalry and recent historical debates.

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Abenomics – Promises and Results

An Interim Evaluation of the Japanese Economic Policy after 2013

Tamás Novák

1. Introduction

In the past more than two decades, several attempts were made to explain the causes of the “lost decade”—the long lasting paralysis of economic development—in Japan. The Japanese government launched several reform programs, but without much success. The country struggled with the liquidity trap for decades, and the inflation rates have been hovering around zero since the stock market and property market bubble burst in the 1990s. This was coupled with very slow economic growth explained by the end of the catching up period. Some experts blamed the inappropriate monetary policies, while others emphasized the unsuccessful and half-hearted structural reforms.

For a couple of years after the turn of Millennium, the robust growth and demand of the Americans and the Chinese, the favorable international conditions helped Japan and generated sufficient boost for Japanese products and services in East Asia. Despite the favorable external conditions, however, domestic economic policy tools did not prove to be effective.

Interestingly enough, after the Global Financial Crisis (2008-2009) a number of countries faced similar problems globally. Deflation and structural issues have been one of the biggest challenges economic policy-makers faced all around the world and especially in the most advanced countries. Traditional monetary policy tools usually proved to be inefficient in increasing price levels and they failed to give significant growth impulses to the slumping economy. When the Global Financial Crisis struck in 2008 and 2009, the Japanese economy struggled in the same shadows again.

As a response to the new liquidity trap, in 2013 the Japanese Prime Minister launched his new economic policy, dubbed ‘Abenomics’. This set of economic policy measures tries to combine and harmonize structural reforms, a new monetary policy, and a flexible fiscal policy. After five years and the reelection of the prime minister, there are certainly tangible results of this policy, however, the extent of the

success, sustainability and long-term effectiveness of Abenomics is heavily debated by researchers.

This paper seeks to evaluate the interim results of this new economic policy by looking at macroeconomic indicators and reviewing the available literature in this field of research. It must also be underlined, that since the start of the economic program the external environment—world politics and the world economy—has undergone significant changes, and the maneuvering room of this policy has altered significantly. Some of the most important differences (1) the change in the American foreign and trade policy approach to East Asia; (2) the economic and political emergence of China; (3) and along with that, the launch of the Belt and Road Initiative modified the political and economic frameworks of Abenomics completely. It must also be added that the Trump administration not only withdrew from the TPP (Trans-Pacific Partnership), but it also started a trade dispute with China with the potential to ignite a trade war between the leading economies of the world economy; the US and China. The outcome of this dispute will be decisive for the Japanese economy, because of the importance of international trade linkages. It must also be underlined, that in most cases, the Chinese partners or subsidiaries of Japanese firms in China assemble Japanese intermediate goods exported to China. If Chinese export to the US will be damaged by the trade disputes, this model of cooperation will be questioned, and Japanese firms might be forced to rethink and reshape their local and global strategies.

To sum up, changes with far-reaching consequences are underway in both the global economy and politics. This paper tries to refer to these changes if it is necessary, however, it does not intend to give a comprehensive overview of these political and economic changes; the focus is the implementation and results of Abenomics. It must also be emphasized that the endeavors and framework conditions of Abenomics cannot be understood properly without recalling the development model of Japan from an economic historical perspective and the new challenges emerging in the nineties.

2. Japan's Economic Development Model and its Limits after World War II

Although the 'Japanese miracle' is already deemed in the past, the special features of the post world war Japanese economic development still shape the maneuvering room for economic policy, particularly for the long term structural reforms. The transition from a rapid catching up to shift of a moderate but rather sustainable economic growth period proved to be difficult in several countries, and from among the most advanced countries, it happened to be Japan probably first facing this challenge. It is

also interesting, that although several decades have passed by, competing and different explanations still exist with reference to the rapid economic development, and still no theoretical consensus has come into view among the researchers and analysts. In fact, there are two powerful theoretical attempts most credibly explaining the neck-breaking pace of the economic growth in Japan in the 1960s, 1970s, and 1980s.

According to the first model, the so-called 'flying geese', the main driver of industrial change is the leader's—in this case, that is of Japan—need to minimize labor costs, based on shifts in comparative advantages. This concept suggests that industrialization and internationalization of production spread from one low wage country to another. It also implies that the mechanism only sets in when the competitive advantages of the first low wage country have been fully exploited. On the other hand though, recent technological changes pose new threats by diminishing the importance of wages, having a look at the fact that more and more labor phases and processes can be carried out by automation that constrains economic policies exploiting wage differences. This model was successful and known for explaining how and why the hub of industrial production was reallocated repeatedly through the Asian region.

Concerning the second, 'developmental state' model, it was rather to emphasize the internal causes of the rapid development after World War II, however it lacked the aptitude to reflect the growing internationalization of the economies from the 1980s onward. It was Chalmers Johnson, who first conceptualized the term 'developmental state' emphasizing the competent and far-sighted bureaucracy as a determinate feature of the Japanese economic miracle, which shaped the Japanese path quite different from other capitalist countries. The purpose of making a distinction among capitalist economies was to call attention to the differences and not to the similarities in these economic systems. Johnson claimed that: "One of my purposes in introducing of the "capitalist developmental state" into a history of modern Japanese industrial policy was to go beyond the contrast between the American and Soviet economies" (Johnson, 1999, p. 32). Later, the concept of 'developmental state' became popular in terms of macroeconomics, and major contributions were made by Robert Wade (*Governing the Market*, 1990), Alice Amsden (*Asia's Next Giant*, 1992), among others. However, the emphasis was shifted in some cases, some analysts highlighted infrastructure, policy tools (i.e. saving and credit giving schemes, foreign investments, export zones, government interventions to spread technology etc.), history, and culture.

From the nineties onward, the economic policy of Japan was forced to face the challenges of grinding deflation and weak domestic demand in an ageing population. These trends and structural issues come to be more and more crucial causing the

need to completely rethink the developmental model. When the bubble burst in the 90s and Japan was caught in a devastating deflationary spiral under the new conditions, none of the earlier concepts could be applied successfully, neither could give any point of reference to policymakers to boost the Japanese economy. The threats and weaknesses of the Japanese path was emphasized by Berger and Lester (2005). They claimed that Japan—ineptly—did not change its strategy when it was necessary (and possible) in the early 1990s, as facing a slowdown. Japan created big internationally competitive firms, and at the same time, it protected small businesses. This policy resulted in a dual economic structure, in which investments in other Asian countries were preferred over domestic reforms. The embedded mercantilism of Japan embodies a model where interests of large firms overwrite those of small firms and the majority of the population (Berger – Lester, 2005, p. 27). The analyses shall also call attention to the fact that the Japanese banking sector was at the root of the crisis in the 1990s, which gave no help to Japanese policymakers to set a new, sustainable development path. Originally, the structure of the Japanese banking sector was highly influenced by the approach of the American Glass-Steagall legislation (1933) that separated commercial and investment banking, which approach was adopted after the war by Japanese policymakers. Investment banks could accept deposits, but they were not as tightly regulated as the commercial banks, which, though,—in case of a bank failure—were protected by the state. Furthermore, long-term banking was uncoupled from short-term banking in Japan, which is considered to be another important difference that distinguishes the Japanese banking sector from that of the entire Asian region. The keiretsu groups found broad attention in literature. The keiretsu groups—maintained dominance over the Japanese economy particularly for the second half of the 20th century—were a set of companies, which were built around a bank. The advantage of keiretsu groups has been a long-term connection with banks, however, it created a strong relationship between government and business that led to the increased risk of the heavy extension of easy credit by government-guaranteed banks to closely allied companies. This business environment was among the main causes of the Japanese financial crisis of the early 1990s (Krugman, 2009, pp. 56-76).

Nonetheless, the reasons for the step up of the Japanese growth in the early 2000s, was mostly the favorable external conditions, i.e. cheap loans as a result of the global fall of interest rates. Although the economic activity picked up speed, deflation was fixed, and unemployment rates improved, but no remedy was found for the core problems of the economy. The unsolved structural problems were masked by the misleading, improved macroeconomic data. Soon after the economic crisis in 2008, the earlier problems reappeared right away, however this time in an even worse external

framework conditions. Under these circumstances, the Abe program was launched in 2012, with the aim of striving to find long-term solutions to the problems of the Japanese economy.

Experts frequently refer to Abenomics as a completely new economic policy mix with the objective of “putting Japan back on its feet”. Supporters expected that this mix would be the proper response to the model questions emerged from the beginning of the nineties and touch all the relevant and difficult problems of the economy. Others argued that this policy, most importantly the new monetary approach would lead to “Abegeddon” because of its inflationary implications. These diverging views were based on the lack of consensus about the origins of the Japanese economic problems. Some argued that from the beginning of the nineties, the inadequate monetary policy with its slow and cautious reactions caused the long term deflationary spiral in the country. Others believed that the long-term structural problems were the major causes of the economic hardships. Thus, the focus should be on structural reforms, and without implementing it, no other policies can be successful in managing economic challenges. When Abenomics was initiated, this debate about the causes of the economic difficulties was not yet resolved. (For competing views see: Yoshino – Taghizadeh-Hesary, 2017; Krugman, 1998). This contradiction was reflected in the program design that tried to manage structural problems and deflation at the same time. At the same time, it needs to be added that in the nineties, mostly the short-term issues, like monetary policy were blamed for the unsatisfactory performance of the economy. Over time, however, the long-term structural problems, more precisely the lack of structural reforms were increasingly thought to be the major reason of the problems. Exactly because of these diverging explanations for the roots of the economic problems, Abenomics tried to strike a balance and thus it became a mixture of short and long-term objectives. This approach was new, because it did not intend to prioritize economic policy fields over one another (Lechevalier – Monfort, 2017).

3. The Instruments of the Abe Program

Against this backdrop, the program was launched in early 2013, the comprehensive economic program aimed at reviving the Japanese economy in a sustainable way. The program comprises instruments in three main policy fields. These fields are monetary policy, fiscal policy and structural reforms. These are often called as three arrows of Abenomics (Botman – Danninger – Schiff, 2015, pp. 3-6).

The novelty of this policy mix is its innovative approach, since it seems to be realizing the importance and need for a good economic policy, which must include a new monetary policy; a stabilization oriented fiscal policy and structural measures simultaneously, not giving priority to any of them over the others. In addition, the harmonization of these policies and the coordination among them became an explicit objective, which had not been frequently emphasized earlier. This approach had a major impact on the overall government policy: economic policy became the main priority. This prioritization was also confirmed by institutional arrangements, too, such as the establishment of important economic advisory bodies like the Council of Economic and Fiscal Policy, the Council of Industrial Competitiveness and the Council of Regulatory Reform. This did not mean that political considerations are always subordinated to economic interests; this is clearly proved by the several compromises made during the whole period, although economic perspectives were always high on the agenda (Lechevalier – Monfort, 2017).

The importance of harmonization and coordination among these “arrows” cannot be overemphasized. Earlier, for example, in most cases structural reforms were thought to be implemented first that could be followed by more active monetary steps. According to this approach, monetary policy cannot be effective if structural weaknesses prevent the monetary transmission to work properly. The same was true for fiscal policy: although fiscal consolidation had long been discussed, the policy makers generally did not want to give up the large scale fiscal stimulus programs, because they feared the further deceleration of growth. As a result, the public debt spiraled without delivering the expected growth dynamics. The coordination between fiscal and monetary policies was made easier also by the change of the governor of the Bank of Japan (BoJ), not long after Abe became prime minister. The understanding between most important policymakers in both monetary and fiscal fields is a prerequisite for the smooth operation of the economic policy.

Regarding the monetary policy, the major objective was without doubt to break the vicious circle of deflation, which poisoned the business environment for decades. The policy to achieve this objective combined quantitative and qualitative easing. At the same time, an important feature of this policy was cautiousness, explained by the earlier failures of zero interest rate policy applied in Japan for several years (the zero interest rate policy was the quantitative easing in 1999-2006). The cautiousness was also explained by the belief that deflation was basically caused by structural problems, which could not be managed by monetary policy instruments successfully, but which could supplement and strengthen the positive impact of restructuring. It was also feared that an overly active monetary policy would lead to rapid inflation, further exacerbating the economic difficulties.

On the other hand, international examples and growing consensus among Central Banks globally after 2010 indicated that a more active, non-conventional monetary policy was probably the best response to alleviate the hardships and consequences of the economic crisis and manage the risk of deflation. As a result, BoJ committed itself to a quantitative easing to be implemented through multiple channels by using reduced long-term interest rates, increased lending and investment in risky assets and altered expectations for inflation. Based on this approach, the monetary policy was regularly updated and new instruments were introduced as the situation changed.

In the first round of QE, the Bank of Japan doubled its balance, however, when the inflation rate remained below 1 percent, the central bank started the second phase. This phase is supposed to last until the 2 percent inflation rate is achieved; at least that has been the communication of the central bank recently. In this framework, the central bank buys long-term government bonds from the commercial banks. Beside the purchases of bonds, additional measures have also been implemented, and the bank introduced a negative interest rate policy in January 2016. Despite the very strong measures, and messages from the central bank, there are already signs for the termination of this aggressive phase of QE, since 2018 was the first year after launching Abenomics, the balance sheet of the Bank of Japan declined.

As a second arrow, the fiscal policy must be analyzed. This is a mixture of fiscal consolidation and budgetary stimulus. The objective of the flexible fiscal policy is to achieve better budget discipline in order to manage the very high public debt, while maintaining certain level of fiscal stimulus as an offset of deficit financing. The target to be reached is a primary surplus by 2020. In order to achieve this, on the revenue side, the key tool of consolidation was the increase of consumer tax. The first phase—raising the rate from 5 percent to 8 percent—was implemented in 2014, but the second step—the raise from 8 percent to 10 percent—was postponed twice due to the unsatisfactory GDP growth figures. (This tax raise now is scheduled for the fall of 2019.) In order to alleviate the negative growth impact of tax increase, the government implemented several fiscal stimulus packages during the Abe program, and year by year a smaller and smaller amount was allocated for this purpose. In 2013, the fiscal stimulus totaled USD 210 billion (USD 116 billion direct government spending); in 2014, USD 48.5 billion, in 2015, USD 31 billion, which was equal to 2.1 percent, 1.2 percent, 0.7 percent and 0.5 percent of the GDP, respectively. Overall, this decreasing trend clearly indicates the consolidation oriented approach of the fiscal policy. On the other hand, the pace of the fiscal consolidation proved to be slower and smaller than it had been in several other indebted advanced countries. This again proves

the cautions of the government in implementing the new budget policy. To sum up, although the government advertised and talked a lot about fiscal stimulus programs, at the same time, it implemented a consolidation program much more successfully than the earlier governments. In international comparison, the pace of consolidation has not been outstanding, but compared to Japan's own earlier experiences, the results are remarkable (Krugman, 2018).

When it comes to structural reforms, the objective was to achieve faster economic growth (improve and strengthen the basis of potential growth), while managing the problems concerning the demographic trends and the challenges of the fiscal consolidation path. This structural reform oriented approach borrows a lot from standard reform programs introduced in several countries earlier, and the dominant view was that it should trigger a chain reaction: structural reforms improve productivity; they also focus on trade liberalization with new free trade agreements, as a tool to boost the economy; and lead a higher labor participation rate.

As a part of structural policies, the emphasis on female participation rates was emphasized as an alternative to immigration. The labor market reform and instrument to be used for managing demographic challenges was especially focused on the mobilization of the domestic labor force. In recent times, the two basic characteristics of Japanese society were the aging and the dwindling population. A crucial element of the efforts is to increase the employment rates of women significantly in the Japanese economy. This part of the Abenomics is often called 'womenomics' (along with aim to bring more women into decision making positions). According to plans, the female employment rate should increase by 5 percent, from 58 percent to 63 percent by 2020. There are references made by the government to experience in the Scandinavian countries, Sweden and Norway, where high female labor participation rates can be aligned with relatively high fertility rates. However, this analogy fails to point out the very flexible labor market in these countries, which is not the case in Japan. McBride and Xu (2018) states that until now the efforts of the Japanese government focused on "culture of overwork", leading to mental and physical problems among the laborers. In the second round of the Abenomics, the Japanese government announced a platform that focuses on birth rates and social security. What is a fact, however, is that during the past five years the population declined by about 0.2 percent annually. These indicators and the forecasts point towards a further worsening of the demographic situation, the solution of which is more and more difficult to see.

The trade policy indicates a departure from earlier approaches, which is best reflected in the intention to participate in TPP, and the negotiations on the EU-Japan free

trade agreement. Trade policy is partly aimed at supporting the exchange rate policy, too. In the region, Japan has had the most liberal exchange regime among the regional competitors over the past decades. When in 1971 Nixon announced that the US dollar would not be convertible into gold, Japan immediately switched to a managed floating system. However, free floating exchange systems were legalized only in 1975, at the Jamaica conference of the International Monetary Fund. During the late 1970s and early 1980s, the Japanese Yen was under appreciation pressure as the Plaza Accord was adopted by the United States, Germany, the United Kingdom. Japan triggered a new wave of appreciation of the Yen in 1985, which probably contributed to the Japanese property bubble in 1991 and the subsequent slowdown of economic growth. Since then, the Japanese monetary policy has attempted to depreciate the Yen several times (e.g. after the Asian financial crisis, and after the Global Financial Crisis), but its impact on trade performance remained limited. The new Japanese economic policy (Abenomics) has also included depreciation of the Yen, but much more emphasis has been put on trade liberalization measures. According to the government assessments, the program is successful, which is confirmed by the following data:

The nominal GDP could grow from 439 trillion yen in 2011 to 549 trillion by 2017. The aim is to reach 600 trillion by 2020.

- The number of total employed persons rose significantly: in 2012 the figure was 62.8 million, and at the end of 2017, 65.4 million.
- A similar positive trend can be observed as for the female workers: during the same period, the number of female workers increased from 26.6 to 28.1 million. According to the Ministry of Health, Labor and Welfare, the women in management positions reach 10 percent in the private sector.
- Consequently, the unemployment rate declined significantly, shrinking from 4.5 percent (2012) to 2.8 percent (2017).
- To ease labor scarcity problems, there are more and more foreign workers in the economy. Though the number is still insignificant for the size of the labor market, the number of foreign workers almost doubled from 2011 to 2017.
- The government underlines that both the corporate ordinary profits and tax revenues could rise significantly between 2011 and 2017. Corporate profits rose by around two-third and tax revenues by almost one-fifth.

- The Japanese government emphasizes its commitment to speeding up international economic co-operations. Japan concluded its free trade agreement with the EU in 2017; it also reached an agreement in principle in the TPP11 in November, 2017. Both agreements entered into force in 2019, and it may contribute to increasing international trade in the coming years (European Commission, 2018; The Diplomat, 2018).

4. Criticism and Evaluation

Although the government reports significant results and successes, comparing the ex-ante predictions of the Abe program and the actual outcome after the first five years of the program operation (2013-2017), one is bound to be more skeptical. Important macroeconomic targets have not been reached. The most important data target set at the beginning of the program, namely the 2 percent inflation rate, originally forecast by 2015, was not achieved. The other important macroeconomic target, the 2 percent GDP growth dynamics was also missed.

But before declaring the program unsuccessful because of these shortcomings of key macroeconomic targets, we must point out that Japan was pulled out from deflation, and only the more ambitious inflation target could not be reached. After several years of deflation, except for temporary and short periods, the price development has remained positive in the past 5 years. When analyzing the inflation trend, one must point out two distortive factors having an impact on it. The first distortion was related to the consumer tax increase in 2014 resulting in a temporary strong inflatory pressure. The second impact came from the price fall of imported energy. Although the inflation rate during the period varied from slight increase to close to zero rates, the economy did not sink into a constant deflation which is no doubt a remarkable result given the disappointing result in the previous two decades. The central bank could not achieve its two percent inflation rate target, but it was able to maintain a slow, but persistent price increase path. Moreover, as a further new development, when the Central Bank observed the problems in reaching its inflation target, it introduced further monetary easing measures throughout the period. In other words, the BoJ maintained its proactive strategy in managing inflation by introducing new monetary policy instruments as required by the circumstances (Council on Foreign Relations, 2018).

On the other hand, the evaluation of the growth performance is much less clear. Comparison with earlier years' performance may help us to evaluate the results and the implications of the Abe economic policy. In full agreement with several authors

(e.g. Levalicher – Monfort, 2017), this comparison must be undertaken very carefully. It is not justifiable to compare the 2013-2017 five year performance directly with the preceding five years (2008-2012), due to the distortive impacts of the economic crisis. Compared to the performance of the pre-crisis period, however, one can conclude that the Japanese economic development has improved, even if the external conditions became worse and the population started to decline (in the early 2000s, the population, albeit modestly, still expanded). The GDP growth proved to be volatile depending on the size of fiscal stimulus programs and tax measures, especially in the first years of Abenomics. The GDP growth speeded up in 2013, not least because of the fiscal stimulus program introduced that year. However, the volatility was very significant, and, in 2014, the consumption tax raise hit the economic performance significantly. In addition, the slowdown proved to be much more marked than it had been anticipated, which then canceled the second wave of the tax increase. In early 2015, growth picked up again, but only temporarily. Finally, the GDP accelerated in 2016 and 2017, but remained under the targeted 2 percent growth rate. On the other hand, the GDP growth rate seemed to be much less volatile in that period. We can point out that even if several indicators delivered a favorable performance (including stock prices, or unemployment) and the Yen also devaluated considerably supporting the trade performance, these favorable indicators could not be translated into stable economic growth performance.

Table 1

Macroeconomic indicators for Japan

	2001-2007 average	2008-2012 average	2013-2017 average
GDP	1.3	-0.2	1.2
Private consumption	1.2	0.5	0.5
Private investment	1.8	-1.8	3.0
Export	7.3	1.0	3.9
Core inflation	-0.5	-0.4	0.5
Population growth	0.1	0.0	-0.2
Unemployment	4.6	4.5	3.5
Public debt	171	217	240

Note: The idea of this comparison was taken from Japan Forum 2017, p. 290.

Source of data: IMF

Referring to structural patterns, Abenomics does not seem to depart fundamentally from earlier efforts in the past two decades. According to a popular approach, the most important reason why the economic growth failed to deliver the expected results was that the third arrow could not fly high (Lechevalier – Monfort, 2017). Several structural reforms were initiated by Abe, but the same was true for earlier

governments, especially in the years after the turn of Millennium. One effort, the liberalization of the economy both internally and externally, however, was probably the strongest during the Abe government and compared to the previous decades. TPP, the EU-Japan free trade agreement, changes in agriculture and state subsidy policies are the indicators of the liberalization efforts. At the same time, it also became clear that the potential positive impacts of trade liberalization today are much more fragile, as the global trade disputes are intensifying. In fact, the list or (catalog) of reforms is very similar those mentioned by earlier governments, or by textbooks.

On the other hand, it is rather problematic that there was no clear timetable and consistency among the reform steps. The other shortcoming is related to the very limited progress in certain reform areas, where more rapid advancement has been anticipated. It is probably most evident in the case of womenomics, which has been on the reform agenda from 2002. The next problem that can be observed is the discrepancy between the financial performance and productivity. As it was cited above, the government was most proud of the financial performances (like stock exchange, monetary policy) the financial markets benefitted most from. On the other hand, much less revolutionary attempts have been initiated in the field of innovation and productivity growth. According to several analyses (Lechevalier, 2014), the government still continues to support the Silicon Valley model (described in detail for example in: Castells – Himanen, 2014). This is problematic, because in the meantime several new policies and innovative solutions have been adopted by other countries or innovation centers, which overall serve better to satisfy the needs of contemporary technology development and human needs.

The trends of labor market reform and economic deregulation as sources of strengthening potential growth are important to be highlighted. Herrero argues: “In the labor market, little progress has been made to reform the life-time employment system, which has arguably been a bottleneck of the Japanese economy. In fact, employees under permanent employment contracts are highly protected by law and their wages are based on seniority and length of service. While the system established employment stability, it has limited efficient resource allocation through labor mobility, which is essential for an economy undergoing structural change such as Japan’s” (Herrero, 2017, p. 8). At the same time, he underlines that the meaningful structural reforms, especially in the labor market, have not been implemented by the government, and the monetary policy is losing steam, thus the opportunity to push through labor market reforms, essential for the increase of the potential output, is bound to be missed.

Others also point out to the unsuccessful deregulation efforts of the Japanese government. According to the World Bank's latest report, Japan is ranked 39 among 190 economies in the ease of doing business, which is not only below the regional average but it is the worst ranking Japan has received until now. The regional competitors surpass Japan (Hong Kong, Korea, Taiwan, China, Malaysia, Thailand, Australia), and the relevant global competitors (United States, United Kingdom, Canada, Germany, France) are ahead of Japan (World Bank, 2019, p. 5).

Other critics refer to other disadvantageous effects of Abenomics as well. Inoue starts his line of reasoning with positive features of the economic development after World War II. He highlights that along with other developmental states of Asia, Japan could be characterized by having a strong middle-class. Probably it was one of the important distinctive elements of the Japanese model that provided stability to the Japanese political system. However, he states, from the 90s, this formerly egalitarian society became a society in which incomes are more unequally distributed than in other advanced economies. Though the growing gap between the haves and have nots fits into a global pattern described by Thomas Piketty, in this case we must add that while the gap was opening in the 90s and the early 2000s, the economy spent years in a slump in contrast to other advanced countries that could grow rapidly during this period until the Global Financial Crisis.

The second Abe government started its economic program in 2013, and the government put the growth in nominal GDP on the top of the list of achievements. Inoue draws our attention to the fact that the GDP is not end in itself, rather the means to improve the life of the Japanese. He points to a survey that shows the disappointment of citizens with the economic program. 85 percent of the respondents claim that they did not benefit from Abenomics at all (Inoue, 2018, p. 2). The same paper recalls the statement of the government, according to which corporate profits reached a record high level. Inoue underlines the importance of the declining earnings of Japanese workers', and their real salaries/wages index that reached its peak in 1997! Others go even further, stating that the outcome of Abenomics will depend on finding a compromise and harmonization of a new growth model and an adequate social model. The latter considers mostly the management of growing inequalities, which partly should focus on wage increases and the improvement of working conditions. These are necessary to decrease the poverty rate, too. Here we must mention that the income inequality measured by the Gini coefficient is not worse than those of the USA or the EU but compared to previous decades it has shown a considerably worsening trend (OECD Database).

As we could see above, one of the main achievements of the Abe program is the improvement of labor market conditions referred to by the government. The positive changes are measured by the increase in the number of employed persons. However, other experts point out that the main increase lies in the number of irregular workers, which makes the improvement less favorable. There are two aspects that can be stressed here: irregular workers earn much less than regular ones, and the majority (around 90 percent) of irregular workers are women. In other words, the changes in the labor market were detrimental to income equality and gender equality. As for improving unemployment rates, it is often argued that the members of the postwar baby boomers are about to retire and this pushes up the employment level. The last but not least important argument for the failure of the Abenomics is that the rise in stock prices could be only achieved because of the heavy investments of the Bank of Japan and the Government Pension Investment Fund. Thus, the boom in the stock market is being generated by public, not private investors.

5. Conclusions

To conclude, Abenomics has to be regarded as a new policy mix, which tries to implement three fundamental objectives in parallel, not giving priority to any of them. Fiscal policy, monetary policy and structural issues are managed and harmonized in order to achieve better results, which is an innovative approach compared to previous economic policy constructions. The government emphasizes the results achieved to date, but there are several indicators, which fall short of the original expectations. GDP growth or inflation dynamics were worse than expected.

On the other hand, we must acknowledge that the GDP growth returned to a more balanced path and after significant volatility after the beginning of the program, a relative stabilization can be observed. Regarding the inflation, it seems that the country could exit the dangerous trap of deflation. This is a significant achievement, even if the targeted 2 percent inflation has not been reached yet. These results are important, especially if we take into account the rapidly worsening demographic situation and the very fragile international environment (the most important of which for Japan are the trade disputes and failed trade arrangements).

Regarding the future perspectives, it must be noted that the private sector will play a key role after the macroeconomic stability—low, but existing inflation, consolidation of the public finances, sustainable GDP growth rate—has been achieved, creating a stable framework for corporate investments. Given the rising tax rates, which

impacts the income position of the consumers negatively, rising nominal wages should play an important role in managing income inequalities and poverty in the next phases of Abenomics.

In short, to summarize the results of Abenomics so far, one must conclude that it is favorable, especially if it is compared with other possible scenarios, or previous experiences with past policies. It has also become clear that fighting deflation in Japan again is very difficult, even if the monetary policy tried to use every available instrument of quantitative easing. The same difficulty can be observed when it comes to economic growth. Even if the exchange rate developments supported better growth performance through improved trade figures, the real sector seems to react only slowly. Based on this analysis, probably the fairest conclusion is that Abenomics has contributed in several fields to stabilize economic processes. Its outcome, however, will depend on the future steps of the government in the next phases of policy implementation.

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