

Economic Interchange Between Japan and Eastern Europe

By Kazuo Ogawa

Economic interchanges between Japan and East European countries began at a considerably early stage after World War II and trade between them gradually developed. Between the late 1950s and early 1960s, in particular, the Japanese government and governments of East European countries mutually made moves to establish closer economic relations. Japan concluded a series of commercial treaties or trade payment agreements based on a principle of reciprocity. Thus backed by solid government-to-government agreements, Japan and Eastern Europe mutually undertook full-fledged trade.

Japan and East Germany had no diplomatic relations until 1973, when formal diplomatic relations were established. This was followed in 1975 by the signing of a trade agreement. Japan also established diplomatic relations with Albania in 1981 and concluded a trade payment agreement with that country in 1988.

Favored nations

Japan has been treating East European countries as most-favored-nations and does not discriminate against them in matters of export-import procedures and tariffs. This is in sharp contrast with the economic and trade relations between the United States and Eastern Europe. The granting by the U.S. of most-favored-nation status to East European nations poses a very delicate economic question that is liable to become a political issue.

It was not until February 1990, at the time of Secretary of State James Baker's visit to Prague, that the U.S. government granted most-favored-nation status to Czechoslovakia. It is only in the last year or so that the European Community (EC) has begun to conclude trade agreements with East European countries, and depending on the item, the EC still sticks to import quotas.

Japanese industries have also made moves to expand their economic inter-



Japan's Prime Minister Toshiki Kaifu with his Polish counterpart Tadeusz Mazowiecki during his recent visit to Eastern Europe in which he pledged economic aid.

changes with Eastern Europe. In early 1970, economic commissions were established between Japanese economic circles and their counterparts in East European countries on a private basis. (For example, between Japan and Czechoslovakia.)

Since then, joint economic conferences have been held each year alternately in Tokyo and the capitals of East European countries. Expansion of economic and trade relations between Japan and Eastern Europe and steps toward this end are actively discussed at these joint conferences. The joint economic conferences last year discussed such topics as joint ventures, technological cooperation and financing problems. This year a Japan-Poland joint economic conference is scheduled to be convened in Warsaw in the latter part of May.

Japanese corporations are showing strong interest in East European markets. In the first half of the 1970s, Japanese enterprises closed a number of export contracts for large plants in Eastern Europe,

mainly in Poland and Romania. At one time, great significance was attached to Eastern Europe as a market for Japan's plant exports.

At present, all major Japanese trading houses and seven to nine other companies maintain branch offices in East European capitals. The activities of Japanese trading companies go beyond trade between Japan and the region, and extend to trade between Eastern Europe and Western Europe and between Eastern Europe and the Middle East and Africa.

Some East European countries, such as Hungary, Bulgaria and Yugoslavia, have established joint ventures with Japanese companies and are achieving notable results in the chemical industry and service sectors. The number of such undertakings is still very small, perhaps no more than 10.

But Japanese and East European enterprises can now expect to accelerate economic cooperation through joint ventures and expand mutual trade amid

Photo: Kyodo News Service

stepped-up liberalization of the East European economies. Specifically, East Germany and Czechoslovakia, both of which are industrially advanced with sophisticated technology and a capable work force, have begun to allow investment from foreign countries and have been endorsing joint ventures with foreign firms in increasing numbers.

Trickle of trade

Japan's exports to the eight East European countries in 1989 totaled \$787.52 million and its imports from them were worth \$808.55 million, bringing two-way trade to \$1,596.07 million. Both exports and imports diminished substantially from the previous year (Table 1).

The present level of Japan's trade with Eastern Europe is very small and is by no

means satisfactory, a mere 0.2% to 0.3% of the country's total trade and one-fourth of its trade with the Soviet Union, which amounted to around \$6.1 billion in 1989.

Japan-Eastern Europe trade is not only very small in volume but also unstable, widely fluctuating every year. Throughout the 1980s it ebbed and flowed, basically remaining stagnant.

Factors that inhibit Japan's trade with Eastern Europe are varied. Japan and Eastern Europe are geographically far apart and their economic ties have traditionally never been close. This is all the more clear when viewed in the light of the close links between Western Europe and Eastern Europe. The largest inhibiting factor is that traded commodities are not mutually complementary.

Machinery and equipment take up the largest portion of Japan's exports to East

European countries, accounting for as much as 60% to 70% of its total exports to that region (Table 2). These two items are followed by chemical products and steel products. Japanese industrial products, technology and management know-how are highly rated by East European countries, which want to increase imports from Japan if they can find enough foreign exchange to do so.

On the other hand, items Japan imports from East European countries lack consistency. Depending on the country and item, the volume of Japanese imports fluctuates considerably from year to year. Moreover, the main items Japan buys from these countries are not exactly what they want to sell to Japan. Foodstuffs, steel products, chemical products and aluminum are the major Japanese imports from East European countries.

Table 1 Japan's Trade with Eastern Europe

(\$1,000)

		1970	1975	1980	1985	1986	1987	1988	1989
East Germany	Total	53,302	77,765	178,355	181,100	171,176	260,369	247,336	177,763
	Japan's exports	14,656	48,946	138,666	137,133	119,293	201,138	154,734	95,118
	Japan's imports	38,646	28,819	39,689	43,967	51,883	59,231	92,602	82,645
	Balance	(-) 23,990	(+) 20,127	(+) 98,977	(+) 93,166	(+) 67,410	(+) 141,907	(+) 62,132	(+) 12,473
Poland	Total	61,981	337,042	289,747	140,657	201,866	242,449	374,026	329,996
	Japan's exports	22,412	257,023	228,176	73,214	146,087	166,862	258,037	199,744
	Japan's imports	39,569	80,019	61,571	67,443	55,779	75,587	115,989	130,252
	Balance	(-) 17,152	(+) 177,004	(+) 166,605	(+) 5,771	(+) 90,308	(+) 91,275	(+) 142,048	(+) 69,492
Czechoslovakia	Total	25,310	70,492	112,845	110,045	118,645	143,903	165,062	185,432
	Japan's exports	10,111	44,600	63,466	56,935	61,759	63,086	48,243	55,589
	Japan's imports	15,199	25,892	49,379	53,110	56,886	80,817	116,819	129,847
	Balance	(-) 5,088	(+) 18,708	(+) 14,087	(+) 3,825	(+) 4,873	(-) 17,731	(-) 68,576	(-) 74,258
Hungary	Total	15,931	43,586	124,767	135,553	143,536	189,661	265,154	256,470
	Japan's exports	11,720	32,556	107,320	83,247	82,271	91,733	101,338	108,398
	Japan's imports	4,211	11,030	17,447	52,306	61,265	97,928	163,816	147,772
	Balance	(+) 7,509	(+) 21,526	(+) 89,873	(+) 30,941	(+) 21,006	(-) 6,195	(-) 62,478	(-) 39,374
Romania	Total	30,439	181,677	268,232	154,611	206,891	209,192	194,772	252,139
	Japan's exports	26,151	135,979	202,655	89,566	111,476	76,436	52,597	49,755
	Japan's imports	4,288	45,698	65,577	65,045	95,415	132,756	142,175	202,384
	Balance	(+) 21,863	(+) 90,281	(+) 137,078	(+) 24,521	(+) 16,061	(-) 56,320	(-) 89,578	(-) 152,629
Bulgaria	Total	30,098	68,119	87,387	145,539	178,600	142,073	210,136	209,424
	Japan's exports	20,759	51,119	65,316	123,421	160,513	117,222	160,590	164,279
	Japan's imports	9,339	14,000	22,071	22,118	18,087	24,851	49,546	45,145
	Balance	(+) 11,420	(+) 40,149	(+) 43,245	(+) 101,303	(+) 142,426	(+) 92,371	(+) 111,044	(+) 119,134
Albania	Total	787	8,407	1,643	12,510	5,831	4,929	10,956	11,689
	Japan's exports	787	757	1,618	244	627	196	292	107
	Japan's imports	0	7,650	25	12,226	5,204	4,733	10,664	11,582
	Balance	(+) 787	(-) 6,893	(+) 1,593	(-) 11,982	(-) 4,577	(-) 4,537	(-) 10,372	(-) 11,475
Yugoslavia	Total	43,054	126,672	163,210	109,729	96,013	105,995	284,512	173,456
	Japan's exports	40,203	107,694	122,267	70,280	71,776	76,971	122,061	114,530
	Japan's imports	2,851	18,978	40,943	39,449	24,237	29,024	162,451	58,926
	Balance	(+) 37,352	(+) 88,716	(+) 81,324	(+) 30,831	(+) 47,539	(+) 47,947	(-) 40,390	(+) 55,604

Source: The Japan Association for Trade with the Soviet Union and Socialist Countries of Europe

Table 2 Main Items Traded between Japan and Eastern Europe (1988)

	Main items exported by Japan	Main items imported by Japan
East Germany	Machinery and equipment (plants; 65), steel (12), chemicals (10)	Steel (34), chemicals (15), foods (fish and malt; 13)
Poland	Machinery and equipment (VCRs, TVs, passenger cars; 77), light industrial goods (8), chemicals (7)	Foods (fish and powdered milk; 58), chemicals (19), raw materials (10)
Czechoslovakia	Machinery and equipment (plants; 60), chemicals (23), light industrial goods (8)	Foods (powdered milk and hops; 40), aluminum and aluminum alloy (16), steel (11)
Hungary	Machinery and equipment (VCRs, general machinery; 60), chemicals (27), light industrial goods (11)	Chemicals (45), steel (17), aluminum and aluminum alloy (14)
Romania	Coke (54), chemicals (20), steel (7)	Steel (60), aluminum and aluminum alloy (23), chemicals (10)
Bulgaria	Machinery and equipment (plants; 73), light industrial goods (11), steel (4)	Foods (fish; 43), steel (28), aluminum and aluminum alloy (9)
Yugoslavia	Machinery and equipment (passenger cars; 63), metal goods (20), light industrial goods (11)	Ferroalloy (18), chemicals (8), aluminum and aluminum alloy (6)

Note: Figures in parentheses denote share (%).

Source: The Japan Association for Trade with the Soviet Union and Socialist Countries of Europe

But the commodities Czechoslovakia exports to Japan are powdered milk, malt and hops. Czechoslovakia is a highly industrialized nation, and these commodities are not its line. Poland exports fish (cuttlefish) and powdered milk, which likewise are against its grain. This poses a serious problem for them.

Such a trade structure has inevitably given rise to trade imbalances between Japan and Eastern Europe. For many years until the mid-1980s, trade between Japan and Eastern Europe was lopsidedly in Japan's favor, a major factor hindering bilateral trade. Though their trade balance has improved in recent years, the turnaround was merely the result of sluggish exports from Japan due to Eastern Europe's economic slump and deteriorating foreign exchange positions. It was nothing but a balance at a reduced level.

Throughout the 1980s, the Japanese government took a cautious stance in extending credit to East European countries. It also strictly enforced COCOM restrictions on these countries to keep step with Western allies, as a result of which Japan's exports of machinery and equipment to the region were inhibited. There was nothing to buy from Eastern Europe, and if there was anything, it was



A family from East Germany on a shopping trip across the border.

Photo: Kyodo News Service



Amid the swiftly changing political and economic situation in Eastern Europe, the East German government has opened its first investment office in Tokyo, seeking to attract Japanese investors.

not profitable. The extension of credit has thus played no small part in increasing Japan's exports to Eastern Europe.

During the mid-1970s Japan extended a considerable amount of credits to East European countries, which resulted in an expansion of Japan's exports to the region. No such steps were taken in the 1980s.

As is clear from Table 3, the amount of trade between Western Europe and Eastern Europe far outpaces that between Japan and Eastern Europe. West Germany is by far the largest exporter to and importer from Eastern Europe. Even small countries like Austria and Switzerland sell more to and buy more from Eastern Europe than Japan does. Considering Japan's economic strength, the volume of the country's trade with Eastern Europe is too small. There is much room for expansion of trade between them.

Welcoming the ongoing reforms in Eastern Europe, Western countries have decided to render economic support to the region and are hastening preparations for the move. Seven major Western countries, at a summit in Paris last July, adopted a resolution to offer aid to Poland and Hungary.

No easy task

Subsequent developments in East Germany, Bulgaria, Czechoslovakia and Romania have prompted the West to offer assistance to Eastern Europe as a whole, which will entail the establishment of the European Bank for Reconstruction and Development and other measures to create a larger assistance mechanism. This is not an easy task.

Not only the government but also the people of each Western country must be resolved to help their counterparts in Eastern Europe. Ultimately, it will be the people who will shoulder the burden of economic assistance. With this in mind, Western countries should undertake economic assistance to Eastern Europe and business operations there from a long-term perspective, and in a way that will prompt the people of the region to help themselves and take initiatives.

The current changes in East European

Table 3 Volume of Trade between Western Industrial Countries and Eastern Europe

(\$ million)

	Exports to Eastern Europe from Western industrial countries ^(*)	Imports from Eastern Europe to Western industrial countries ^(**)
OECD total	19,248	21,144
EC countries	12,516	14,100
West Germany	5,818	5,166
Italy	1,519	2,420
France	1,398	1,909
Britain	1,216	1,524
Austria	1,934	1,615
Switzerland	1,136	467
U.S.	876	1,577
Japan	773	682

Notes: 1. Eastern Europe includes East Germany, Czechoslovakia, Poland, Hungary, Romania and Bulgaria.

2. (*)F.O.B., (**)C.I.F.

3. Transactions between East and West Germany are not included, because they are regarded as internal trade. West Germany's exports to East Germany in 1988 totaled some \$4.1 billion and its imports from East Germany were \$3.9 billion.

Source: Monthly Statistics of Foreign Trade, OECD

countries will not lead outright to Japan's active economic interchanges and expanding trade with them.

Eastern Europe is not a market from which Japan can seek immediate economic gains. It behooves Japan to extend full cooperation to the economic development and stability of Eastern Europe. This can be achieved through the extension of yen credits via the Overseas Economic Cooperation Fund, financing from the Export-Import Bank of Japan and various forms of technological aid, as well as investment in the European Bank for Reconstruction and Development. Assistance to Eastern Europe is a duty required of Japan as a major industrial country in discharging its international responsibility.

Affluent Japan is expected to come under stronger pressure from both Eastern Europe and the West to carry these burdens. Japanese Prime Minister Toshiki Kaifu visited Poland and Hungary in the course of a European tour early this year and personally pledged to help them. Apart from that, the Japanese government has made it clear that Japan, as a

major industrial country, will render economic support and cooperation to Eastern Europe as a whole.

Needless to say, political reforms in Eastern Europe must be followed by economic rehabilitation, which will not be accomplished overnight. Politicians and scholars of Eastern Europe insist that only the introduction of a market mechanism will facilitate economic reconstruction. But the people of Eastern Europe, who have been accustomed to state-planned economies since World War II, will find a shift to a market economy a very difficult process. For under a market economy the state, government, enterprises and workers will have to live in a fiercely competitive environment in a spirit of self-help and put things into practice on their own. ■

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