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The Japan-EU Free Trade Agreement
Impact of the further globalization of
small and medium sized enterprises in Asia and Europe

Findings and Implications from Empirical Research in Economics

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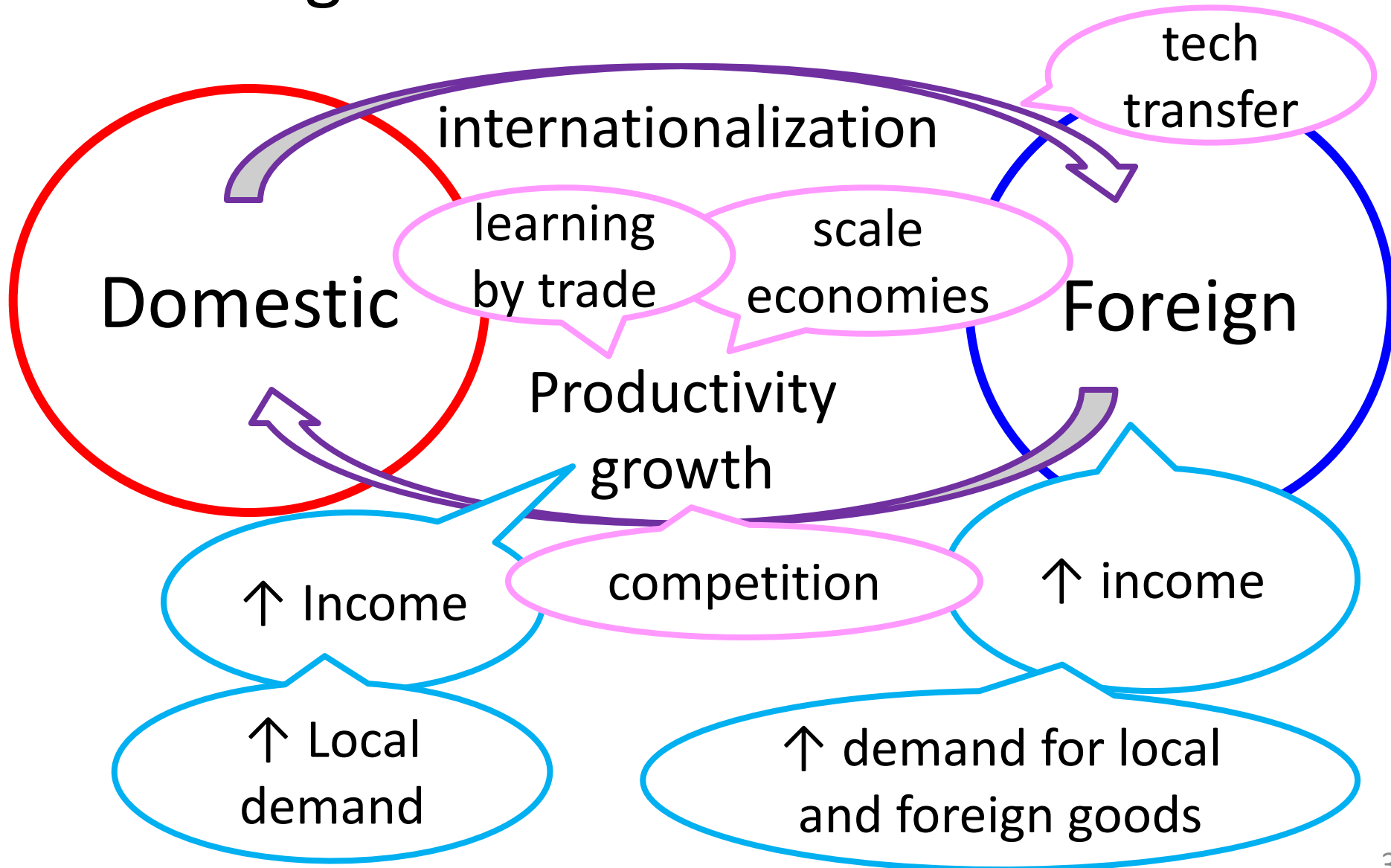
Why do we care SMEs' internationalization?

(Export, Foreign Direct Investment, Offshoring)

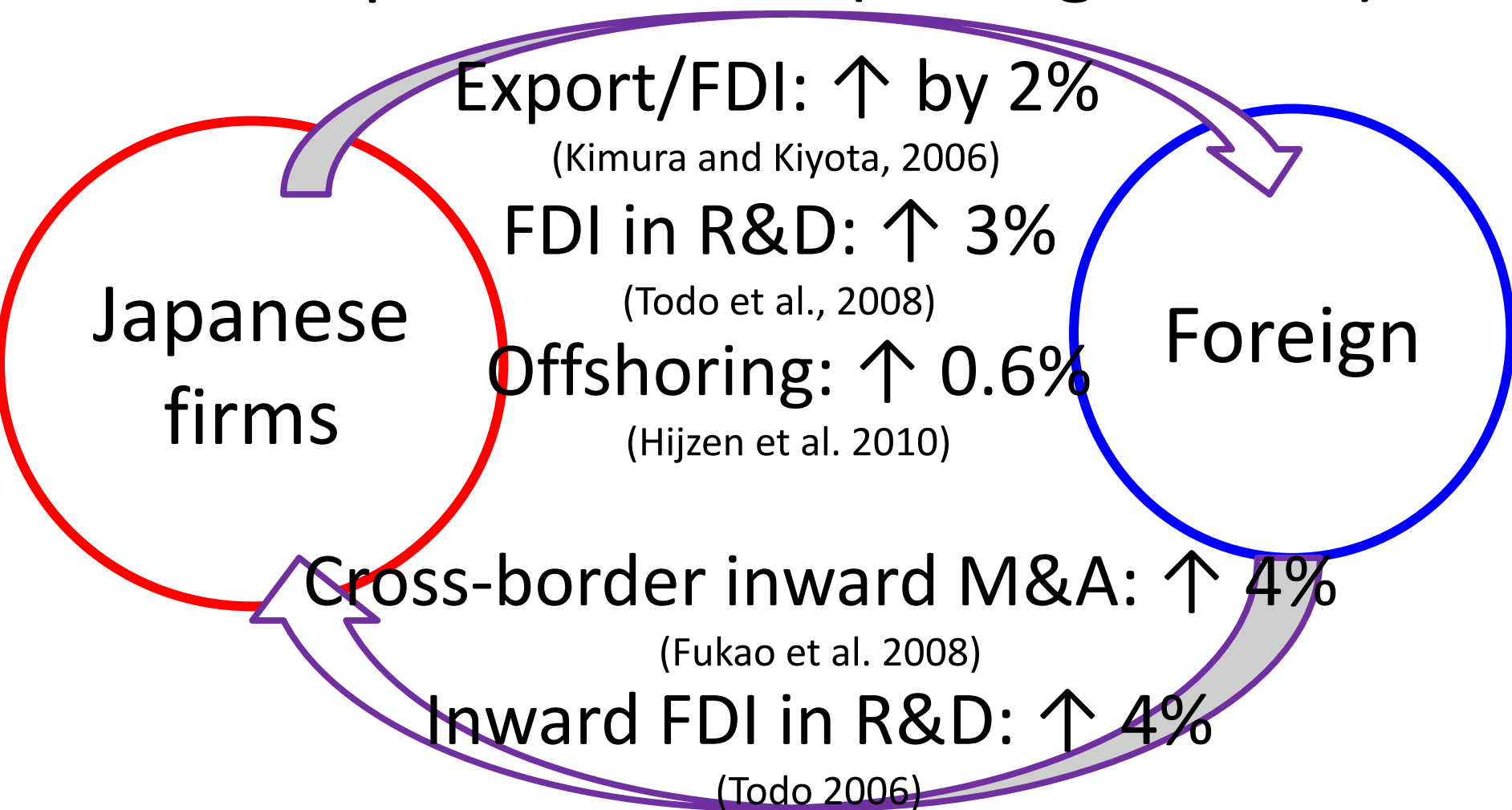
Profitable to SMEs

Beneficial to the whole economy

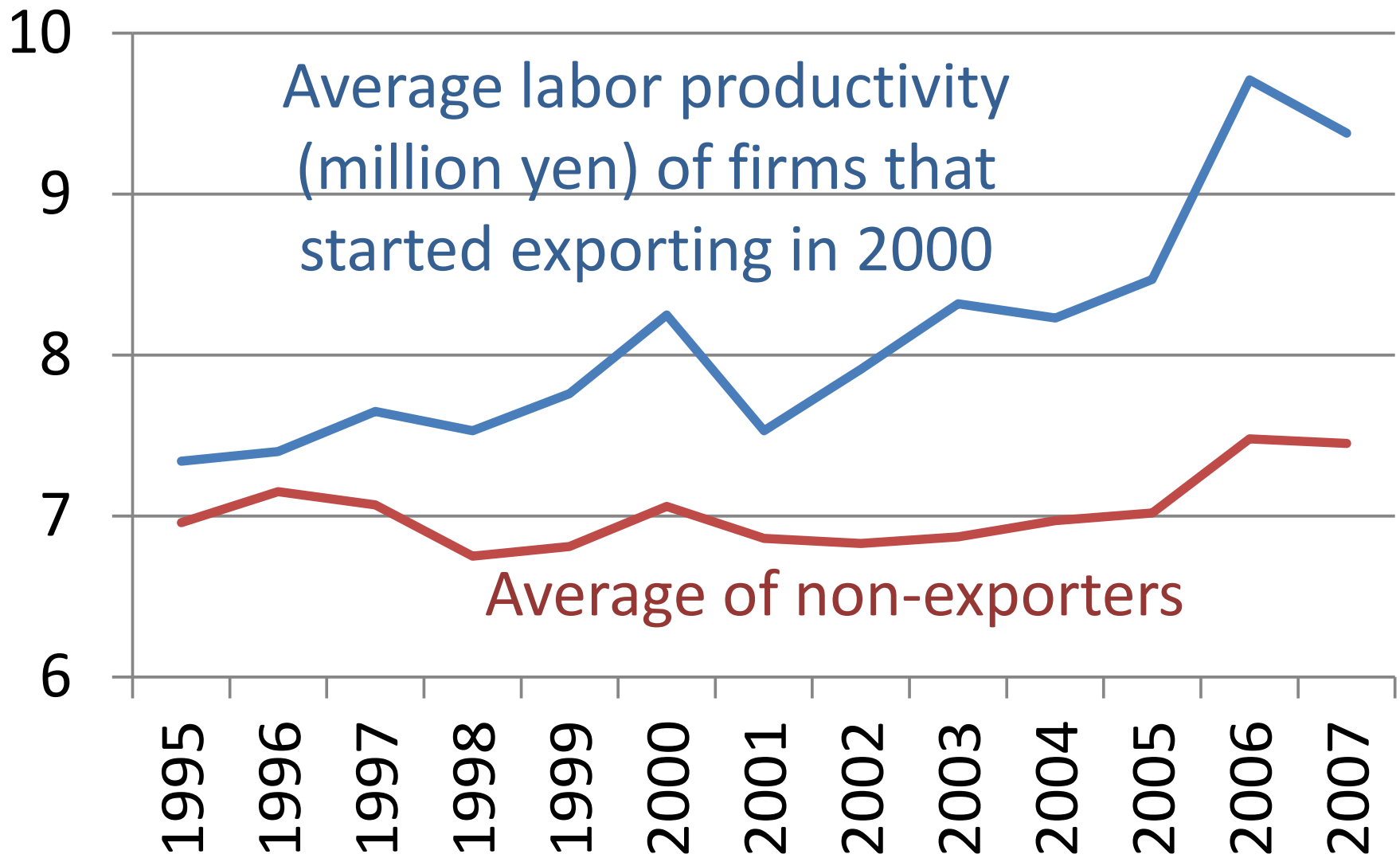
Virtuous Cycle through Internationalization of Firms



Internationalization raises productivity: Evidence from empirical studies for Japanese Firms (average effect)



Evidence of Learning by Exporting

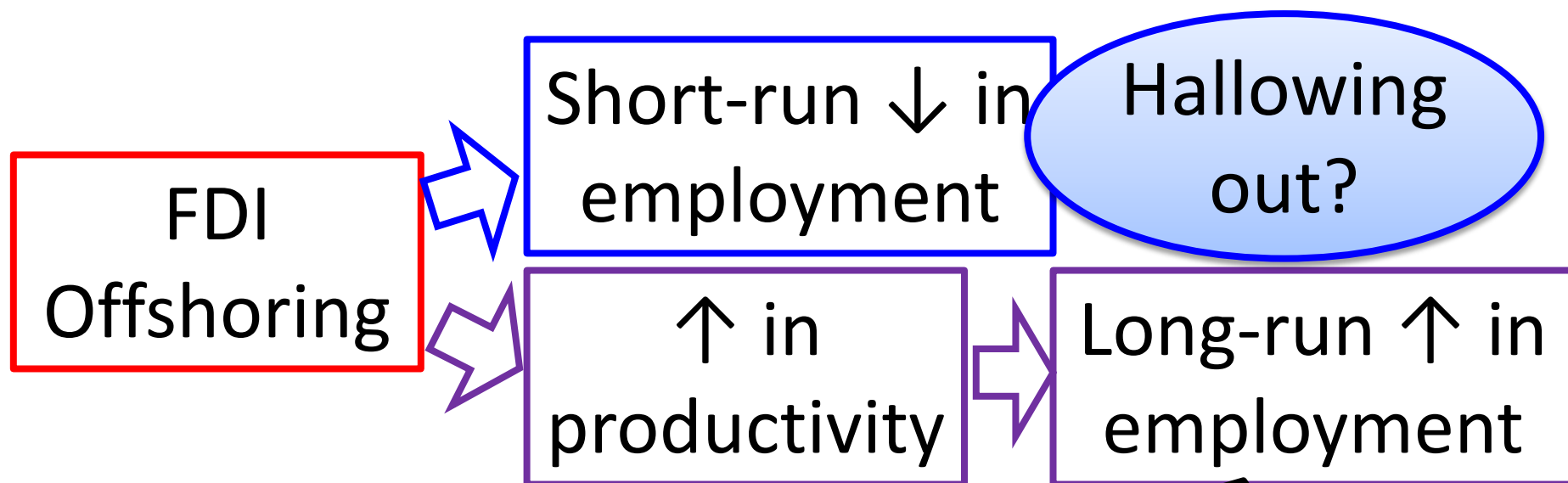


Evidence from Germany

- Effect of 2-way trade on productivity growth > effect of imports > 0 (Vogel and Wagner 2010)
- Positive effects of imports and 2-way trade on firm survival (Wagner 2011)
- Positive correlation b/w # of export markets and productivity (Wagner 2007)

Positive effects of internationalization
can be applied to SMEs (Todo 2013)

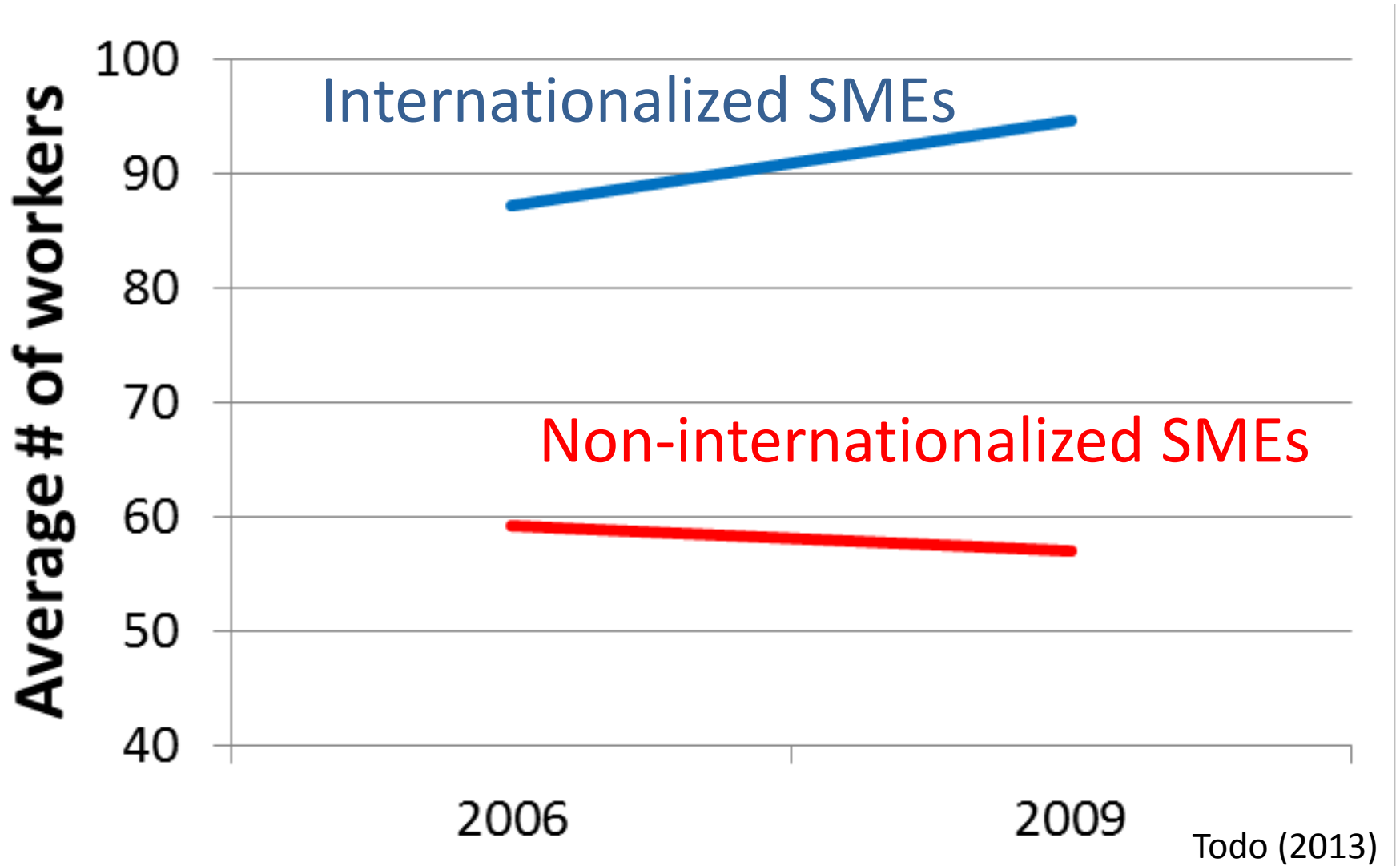
Internationalization does not necessarily deteriorate domestic employment



Supported by firm- & industry-level evidence

(Japan: Hijzen et al. 2007; Yamashita et al. 2010, Tanaka 2012ab, Edamura 2011, Agnese 2009, Ahn et al. 2008. Germany: Wagner 2011)

Evidence of No Negative Effect of Internationalization on SMEs' Employment



Thus, promoting firms' internationalization through FTAs is growth-enhancing, but there are 2 remaining issues.

Estimated effect of TPP on Japan's GDP: 1.96%

Can FTAs really promote newly exporting SMEs?

↑ exports by new exporters

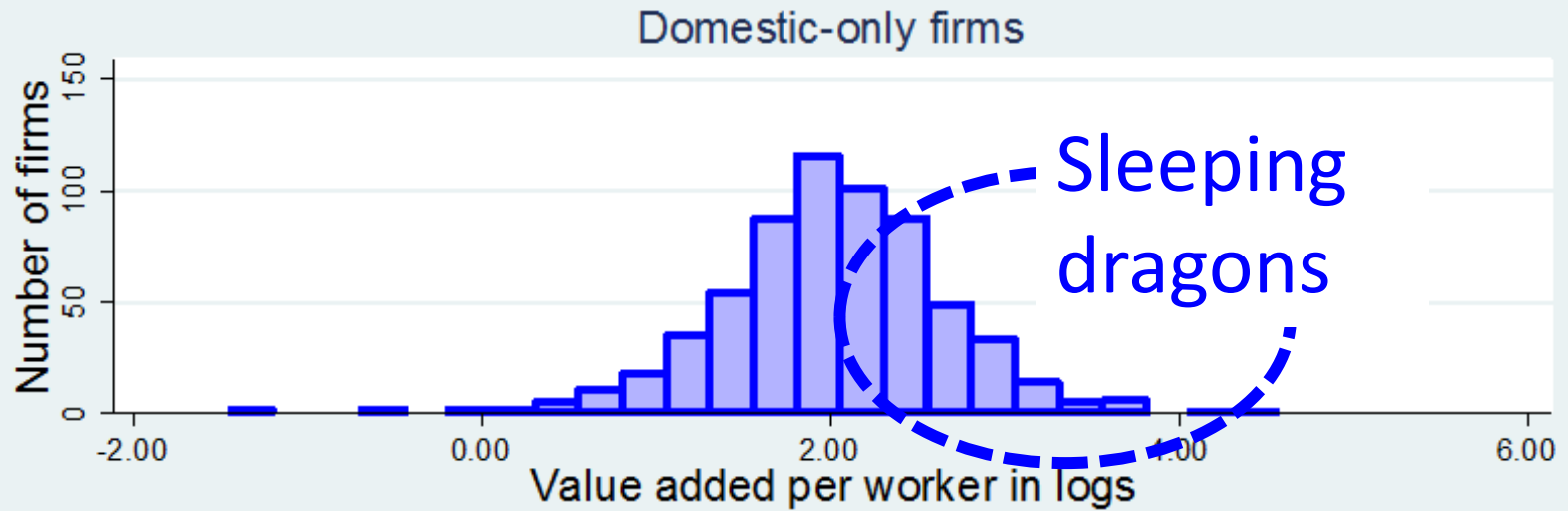
↑ exports by incumbents

↑ production by FDI

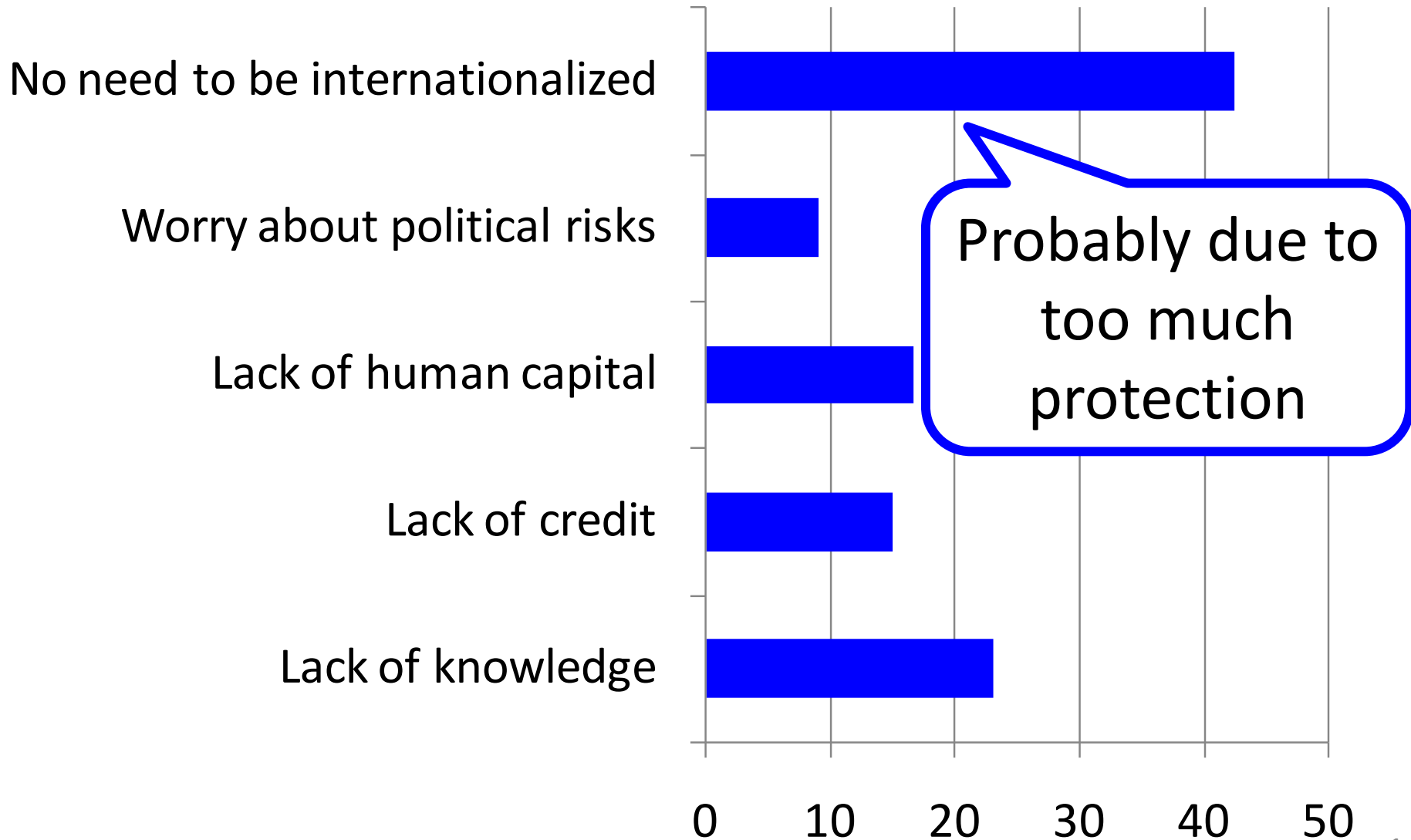
Promoting FDI and M&A is also important

(Petri 2013)

Many productive SMEs are NOT internationalized in Japan.



Why aren't firms internationalized? (Response from Japanese SMEs: %)



Policies are needed to productive SMEs in addition to FTAs.



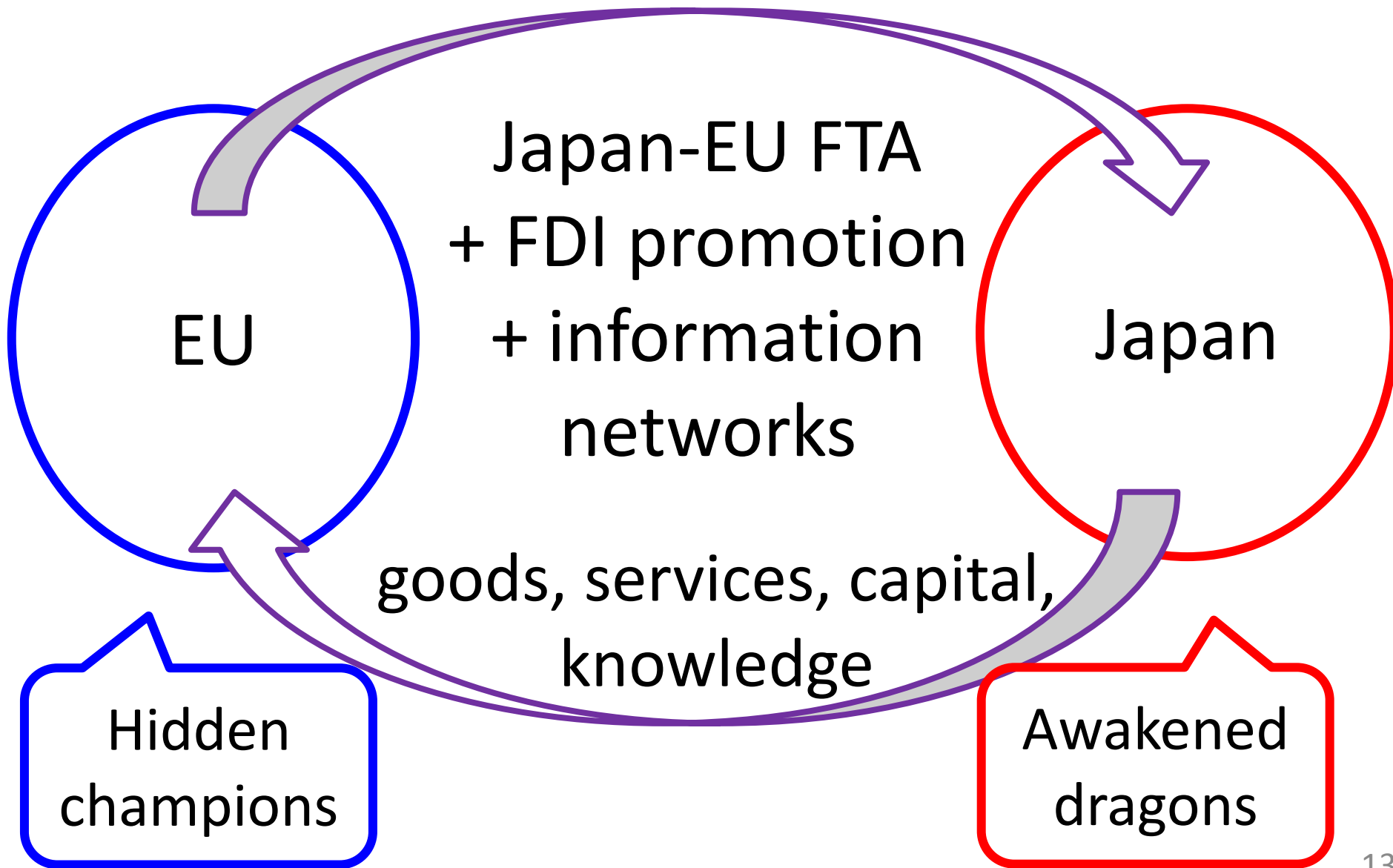
Providing
information on
foreign markets

Promoting
networks with
foreign firms

Eliminating
too much
protection

Summary:

Win-Win Relations b/w Japan and EU



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