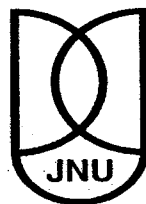


**JAPAN-EUROPEAN UNION RELATIONS:
POLITICAL AND ECONOMIC DIMENSIONS,
1993-2007**

*Dissertation submitted to the Jawaharlal Nehru University
in partial fulfillment of the requirements
for the award of the degree of*

MASTER OF PHILOSOPHY

SANTOSH KUMAR



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DECLARATION

I declare that the dissertation entitled “**JAPAN-EUROPEAN UNION RELATIONS: POLITICAL AND ECONOMIC DIMENSIONS, 1993-2007**” submitted by me for the award of the degree of **MATER OF PHILOSOPHY** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

A handwritten signature in black ink that reads 'Santosh'.

SANTOSH KUMAR

CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

A handwritten signature in black ink that reads 'Srikanth'.

Prof. Srikanth Kondapalli

Chairperson (CEAS)



A handwritten signature in black ink that reads 'Lalima Varma'.

Prof. Lalima Varma

Supervisor

To My Beloved Mother who is no more...



Prof. Lalima Varma

Whose enlightenment has always made me to strive for the better...

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Santosh Kumar

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Abbreviations

ADD	Anti Dumping Duty
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations,
ASEM	Asia –Europe Meeting
CCP	Common Commercial Policy
CFSP	Common Foreign and Security Policy
CTBT	Comprehensive Test Ban Treaty
DDA	Doha Development Agenda
ECSC	European Coal and Steel Community
ECSDP	European Common Security and Defense Policy
ECU	European Currency Unit
EDC	European Defense Community
EEC	European Economic Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreements
EUMC	European Union Military Committee
EURATOM	European Atomic Energy Community
FDI	European Foreign Direct Investment
FRG	Federal Republic of Germany
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GDR	German Democratic Republic
GNP	Gross National Product

JETRO	Japan External Trade Organisation
KEDO	Korean Peninsula Energy Development Organisation
LDP	Liberal Democratic Party
METI	Ministry of Economy Trade and Industry
MRA	Mutual Recognition Agreement
NAFTA	North Atlantic Free Trade Association
NATO	North Atlantic Treaty Organisation
OPEC	Organization of Petroleum Exporting Countries
OSCE	Organisation for Security and Cooperation in Europe
SCAP	Supreme Commander of Allied Powers
SDF	Self Defense Force
SEM	Single European Market
TAM	Trade Assessment Mechanism
TC	Trilateral Commission
TEU	Treaty on European Union
TFP	Total Factor Productivity
UN	United Nations
USSR	Union of Soviet Socialist Republics
VER	Voluntary Export Restraint
WEU	Western European Union
WTO	World Trade Organisation

Preface

With the end of the Cold War there began a period where regional powers could grow and reach to the new heights which were earlier being curbed by the two super powers. In this context Japan and European Union (EU) have developed new innovative ways to explore and establish itself in the liberalized world. At this time Japan was looking for new partner that could provide an effective role to play at the international horizon. Similarly EU has introduced several steps (as mentioned in the Maastricht Treaty in 1992) prominently being use of single currency 'euro' to undo the financial crisis and to expand itself to gain returns. The formal beginning of the relations between Japan and EU was made with the 'Hague Declaration' concluded in 1991. this relationship was further proliferated in various dimensions in the succeeding years with a vow of having more close ties (in different aspects) in various forums and meetings. In this tie up which can be regarded as 'bilateral' the role of US is significant which acted as a catalyst.

The present research work is undertaken to analyse the dynamism involved in the Japan-EU relationship. This work which is titled as '**Japan-European Union Relations: Political and Economic Dimension, 1993-2007**' is divided into five chapters.

First chapter is introduction where the research work is being introduced and the historical background of the relationship between Japan and EU is established. Further various theoretical standpoints have been looked to analyse this relationship.

The second chapter tries to explain Japan-EU political relations, and will analyse security dimensions of Japan-EU relations. It discusses the impact of the enlargement of the European Union, the neighbourhood policy and the European security strategy. Further the chapter explores the feasibility of developments that are taking place in the dynamic World politics, in strengthening Japan-EU relationship in future.

The third chapter examines the path that Japan has taken in pursuing bilateral trade with the major European powers alongside a developing economic relationship with the EEC. It demonstrates how these developments have been driven by changes in the structure of the international system from the 1970s and particular by the 1980s, as well as by specific policy making groups. Changes brought about by the Nixon shocks of 1971 and by the oil crisis 1973 caused Japan to review its international economic relations, particularly those with United States (US).

The fourth chapter attempts to build up a framework that would act as a basis for the future course of the relationship between Japan and EU.

Finally the conclusion chapter examines the ways in which intensified bilateral dialogue between Japan and EU is suited to deal with the imperatives of the complex international relations at the beginning of the twenty first century.

Chapter-1

Introduction and Historical Background

Since time immemorial World Politics has been defined in terms of alliance(s) between hegemonic power(s) and there has been a sequence of superpower on the global scale. In the last century, the world politics has been dominated by the United States(US) and Europe, and the international relations has been defined accordingly giving precedence to the relationship between the US and European Union or at the most to the alliance of the US and Japan. Having a glance over the existing world politics, it's quite emphatic that there is economic as well as political alliance between the given two hegemonic blocks (US and Europe). However, there is a new emerging dimension in the present era of liberalized politics which is getting recognized in the name of Japan-EU alliance. This relationship is not only an anti- thesis to the previously established status quo in the world politics (U.S and Europe) but also helps in reformulating the power game at the global scenario giving a new role to the continent of Asia whose role has had hitherto remained quite limited. Political as well as economic alliance between Japan and Europe have been considered relatively weak compared to those between Japan and the US or the US and Europe, however liberalization has delimited the previously defined hegemonic boundaries and paved way for revisiting and re-establishing new relationship(s) and the historic relations between Japan and EU has come into being in the form of new avatar.

During the Cold War period exchanges and relations between Japan and the EU were fairly limited. Since the end of the second World War, it was the United States which granted aid to Japan which has had helped the latter in its rebuilding. Also, it has marked an impact over Japan's foreign policy which essentially had a bias favoring US in terms of achievement of economic, military as well as other motives. The two nations have been linked by treaty of mutual security signed in 1952. This treaty has provided an upper hand to the United States in dealing the military affairs of Japan which was forbidden from keeping a regular standing army. And therefore Japan got itself involved in the economic development.

With the end of the Cold War this status has been called in to question and there were demands for the removal of American troops based in Japan. These demands have come from within as well from outside the country. As a result, debate over the future of the security treaty itself has intensified. For their part American policy makers have come under continuous attack at home (Japan) for permitting the use of resources for the protection of Japan and thus have renewed calls for greater international burden sharing to be undertaken by Japanese.

At the same time, the European Union (EU) was bounded by the policies which were governed by the US, and therefore was having a limited sort of relationship with Japan. This was due to the enduring presence of US military forces in Europe through its NATO (North Atlantic Treaty Organisation) structures (Gilson: 2000). As a result, there has been creation of several complex structures which has prohibited any nations' involvement with the same including Japan (Hurrell & Kingsbury, (ed.) 1992 as cited in Gilson, 2000).

Therefore, it is visible that with the end of the 'Cold War' there began a new beginning in the relationship between Japan and EU after liberalization of former's as well as latter's policy from US control. The year 1991 emerged as a watershed year in such a relationship when a 'Japan-European Community(EC) joint Declaration' was announced which reconfirmed their commitment to freedom and democracy, free trade, human rights and other common values. This declaration charted a course for joint contributions to the solution of global issues and strengthening of the Japan-Europe partnership. Since the joint declaration, the Japan and EU have honored its spirit by holding annual summits as well as engaging in dialogue and cooperation in a wide variety of fields, on a broad range of levels. In the field of economic relations, particularly in 1992 when the trade imbalance hit record high levels and became a major subject of concern, great efforts on both sides have helped to steadily reduce it. There has also been more of an effort to promote dialogue in political fields also since the Maastricht

Treaty¹ which took effect in 1993 and the political unity of the EU itself was strengthened. In addition to problems of a specifically Japan/EU nature, there is an active cooperation on more global issues, including environment and development assistance. Therefore, as a result of efforts from both the sides the relations between Japan and EU have remained cordial.

However, the linkage of relationship between the two has always remained weak due to the strong presence of US as a governing power which has had tried to maintain the previously existing stereotypes between Japan and EU. In this context, the present study is an attempt to explore the political as well as economic dimension of the relationship between Japan and EU after the end of Cold War, particularly after 1993, the year of establishment of EU.

1. Historical Development of Japan- EU Relations

In order to have a clear picture about the presently existing relationship between Japan and EU there is a prerequisite to get back into their historicity. Therefore to unravel the folds of developments that took place let us have a glance of the formation of EU, and also what went in Japan in perspective to relations with the EU.

1.1 Formation of European Union

European Union as we know today is an integrated unit of twenty seven nations of the continent of Europe. However, it began as a regional economic agreement among six neighboring states in Europe itself in 1951. Gradually it got strengthened and emerged as an association which is basically formed for convenient trading across different nations in the continent with a determined set of rules discussion of which remains outside the scope of this research work. Although the EU is not a federation in the strict sense, it is far more than a free-trade association such as Association of South East Asian Nations

¹ Was signed on 7 February 1992 in Maastricht the Netherlands after final negotiations on December 9, 1991 between the members of the European community and entered into force on 1 November 1993 during the Delors commission .It created the European Union and led to the creation of the euro.

(ASEAN), North Atlantic Free Trade Association (NAFTA) or Mercosur², and it has many of the attributes associated with independent nations: its own flag, anthem, founding date, and currency, as well as an developing Common Foreign and Security Policy (CFSP) in its dealings with other nations. In the future many of these nations like characteristics are likely to be expanded.

Following the two devastating World Wars of the first half of the 20th century, a number of European leaders in the late 1940s became convinced that the only way to establish a lasting peace was to unite the two chief belligerent nations - France and Germany - both economically and politically. In 1950, the French Foreign Minister Robert Schuman proposed an eventual union of all Europe, the first step of which would be the integration of the coal and steel industries of Western Europe. The following year the European Coal and Steel Community (ECSC) was set up when six members, Belgium, France, West Germany, Italy, Luxembourg, and the Netherland signed the Treaty of peace. The ECSC was so successful that within a few years the decision was made to integrate other parts of the countries' economies. In 1957, the Treaties of Rome created the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM), and the six member states undertook to eliminate trade barriers among themselves by forming a common market. In 1967, the institutions of all three communities were formally merged into the European Community (EC), creating a single Commission, a single Council of Ministers, and the European Parliament. Members of the European Parliament were initially selected by national parliaments, but in 1979 the first direct elections were undertaken and they have been held every five years since.

² **Mercosur** or **Mercosul** (Spanish: *Mercado Común del Sur*, Portuguese: *Mercado Comum do Sul*, Guarani: *Ñemby Ñemuka*, English: *Southern Common Market*) is a Regional Trade Agreement (RTA) among Argentina, Brazil, Paraguay and Uruguay founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, people, and currency.

In 1973, the first enlargement of the EC took place with the addition of Denmark, Ireland, and the United Kingdom. The 1980s saw further membership expansion with Greece joining in 1981 and Spain and Portugal in 1986. The 1992 Treaty of Maastricht laid the basis for further forms of cooperation in foreign and defense policy, in judicial and internal affairs, and in the creation of an economic and monetary union - including a common currency. This further integration created the European Union (EU). In 1995, Austria, Finland, and Sweden joined the EU, raising the membership to fifteen. A new currency, the euro, was launched in World money markets on 1 January 1999; it became the unit of exchange for all of the EU states except the United Kingdom, Sweden, and Denmark. In 2002, citizens of the 12 euro-area countries began using the euro banknotes and coins. Ten new countries joined the EU in 2004 - Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia and in 2007 Bulgaria and Romania joined, bringing the current membership to twenty seven.

For the efficient functioning of EU with an enhanced membership there have been several initiatives since Feb.2003 when the Treaty of Nice³ was initiated. This treaty set forth rules streamlining the size and procedures of EU institutions. Later in October 2004 effort was made to establish EU constitution which however failed to achieve unanimous approval from all the states for its ratification. Recently, in June 2007, an attempt was made for the creation of an Intergovernmental Conference to form a political agreement, known as the Reform Treaty, which is to serve as a constitution. Unlike the constitution, however, the Reform Treaty would amend existing treaties rather than replace them.

³ The **Treaty of Nice** (or **Nice Treaty**) was signed by European leaders on 26 February 2001 and came into force on 1 February 2003. It amended the Maastricht Treaty (or the Treaty on European Union) and the Treaty of Rome (or the Treaty establishing the European Community). The Treaty of Nice reformed the institutional structure of the European Union to resist eastward expansion, a task which was originally intended to have been done by the Amsterdam Treaty, but failed to be addressed at the time.

1.2 Developments in Japan

According to a major Japanese dictionary the word Europe was first used in katakana in 1592 and 1593. One of these was a version of Aesop's fables no doubt introduced in to Japan by the Jesuits. The Japanese scholar Aria Hakuseki in 1709 noted that Europe was vulgarly termed "Yoroppa". The first Chinese character of the three used to pronounce the term was a character pronounced O. this led to Europe being term O-shu where shu means territories. But according to Sir Hugh Cortazzi "He believes that there was no real idea in Japan of what was meant by "Europe" when these terms were first used.⁴

1.2.1 Japans' Early Encounter with Europe

The relations between Japan and Europe can be traced back to the 16th century, when the Portuguese and subsequently Spanish missionaries came armed with bibles and muskets to introduced western culture in Japan. However, this faint beginning didn't hold any crucial significance as subsequently after this Japan resorted back to its previous isolationist policy under the influence of its self centered culture. Following the reopening of Japan during the 1850s, Japan's newly formed so called Meiji government adopted much of its knowledge from European models, which were used as a guide to western style modernization in all aspect of life. In 1862 Meiji emperor appointed a Iwakura mission ,its aim was to study about European culture ,society ,education, form of government , constitutions, composition of court, banks schools, university etc. . This Iwakura Mission visited to Great Britain, France, Belgium, Holland, Russia, Germany, and some Mediterranean countries, in order to learn about societal structure, including government structure, military settlement, museums, Banks, schools, factories, court, and parliament. However Japan's relations with European imperialist power were not very strong. This was due to 'imperialist aspirations' of colonial European powers existing at that time, and also due to Japans' isolationist policy which was inherently attached with Japan.

⁴ "Europe and Japan: historical perspective" regional fellow meeting 2006 in Windsor, UK, key note speech by Sir Hugh Cortazzi.

In 1895, there was war between Japan and China, in this war Japan defeated China and claimed Liaotung peninsula. But following the treaty of Shimonoseki to end the Sino-Japanese war in April 1895, the Japanese were indignant about the triple “party intervention” shortly thereafter by France, Germany and Russia, which put forced on Japanese government to return the Liaotung peninsula so as not to threaten the peace of East Asia. The psychological effects of this action were tremendous and left a negative effect on Japan towards the European powers for a long time.

After the successful end of so called unequal treaties with various European countries by the turn of the century, the signing of the 1902 Anglo-Japanese alliance was prompted by fear of continuing Russian advancement southward and a guarantee that Japan would receive a free hand in Korea. These events went some way towards restoring national pride and served as a major boost for Japan’s international credibility. This Anglo-Japanese alliance ensured for the Japanese that British neutrality could be secured in the event of war with Russia. Later this alliance would be cited by Japan in its claim for former German territories in china during First World War. Japan’s victory over Russia 1904-05 further reinforced its newly acquired imperialist status. When the Russia agreed to recognize Japans’ paramount political, military, and economic interests in Korea, to transfer the lease of Liaotung peninsula and railway line from port Arthur to beyond Mukden, and to cede half of Sakhalin with special fishing rights. However, Japan as an economic late starter felt that it had been under rewarded for its War success.

The initial clashes in East Asia did not bring Europeans in to the Japanese war. While the Anti-Comintern Pact of 1936 committed Japan to cooperate with Germany against international communism, tripartite pact with Germany and Italy in September 1940 brought Japanese much more closely in to line with the fascist powers. As a consequence Japans’ relations with European powers remain weakened.

Following the Japan’s defeat in the World War II, the terms and conditions of surrender created a long distance between Japan and European countries (Westerns Europe), especially since the arrival of the Supreme Commander of Allied Powers (SCAP) ensured the development of Japans closer relationship with the US.

1.2.2 Japan and the Major States of Europe

After the end of the War, Japan found it difficult to establish close relations with the major industrial powers of Europe. The states of Western Europe were eager to pool much needed post war resources and to draw Germany in to a regional community, there by focusing upon the affairs of their own continent. Further afield, event such as the 1956 Suez crisis consumed the energies United Kingdom (UK) and France. The roles of Austria and Germany in Europe paralleled in some ways the role of Japan in East Asia. All were occupied by allied forces and were of regional strategic significance. However unlike in the occupation of Japan, occupation policies in Europe were led by the UK, France and the Union of Soviet Socialist Republics (USSR) in conjunction with the US. Austria viewed as a potential satellite by the USSR, was also rocked by pro communist coup attempts in 1947 and 1950. Thus again unlike Japan, it was caught in the middle of early Cold War in most direct way, although ironically, this direct involvement was to lead to a settlement ensuring Austrian neutrality. Germany by contrast was separated in to four occupation zones at the end of world warII and eventually came in to be divided in to East and West with the USSR controlling the East. The eastern part became known as the German Democratic Republic (GDR) and claimed to legitimate successor of former German states. On the other hand western part of Germany or the Federal Republic of Germany (FRG), for its part, was rehabilitated through its central role in European community (EEC) that was established from 1January 1958 by the treaty of Rome(1957). Germany's politics, economics and security were subsumed within this regional grouping. As a result it did not have to push for its own re-entry in to the international community, in the way that Japan did after regaining independence.

The rising power of the US and the US dominated occupation of Japan from 1945 to 1952 means that Japan's relations with the major industrial powers of Europe diminished. The development of western European groupings, closely associated with the US, polarized Europe as the USSR led the breakaway communist responses. With these concerns, Europe in the 1950s had little time for Japan. Japanese policy makers, for their part, were consumed with internal economic development and the need to shelter under

the umbrella of the US-Japan security treaty. Japan and European Union, it seemed had little or nothing to offer one another (Gilson 2000).

1.2.3 Japan and European Economic Community (EEC)

The major industrial powers of Western Europe were consumed with the need to cooperate in the immediate post war years. Established by the treaty of Rome 1957 with the effect of 1 January 1958, the EEC was set-up in order to provide a frontier-free zone for the people, goods and services of the original six members namely Belgium, France, Germany, Italy, Luxemburg, and the Netherlands. The debate surrounding the establishment of the EEC promoted two possible means of developing cooperation so as not to facilitate a return to war. For their part France, Italy and so called Benelux⁵ countries sought close integration in order to rehabilitate their economies, gain a greater international voice and draw Germany in particular in to a pan European structure. The UK, in contrast, advocated looser grouping of states in the form of European Free Trade Association (EFTA)⁶. As Japan had, historically, a particularly close relationship with the UK, which was resuscitated in the 1950s and 1960s, it followed this process with interest. The US for their own interest keen to reintegrate the European countries with one another and to have them assume their own economic burdens, supported the closer form of integration. For this reason, Japan too supported the establishment of the EEC in the 1957 and pledge to develop relations with the new community. The practicality of this policy, however have never been easy to achieve. The EEC represented clearly project (especially from the point of view of Germany and France) with only a limited trade mandate in its formative years. For this reason, Japanese policy makers, business and a limited number of other actors continued to develop their bilateral relations with the

⁵ Benelux: "a group of three countries namely Belgium, Netherlands, Luxemburg".

⁶ The European Free Trade Association (EFTA) was established on 3 May 1960 as a trade bloc-alternative for European states who were either unable to, or chose not to, join the then European Economic Community (EEC) (now European Union). The EFTA Convention was signed on 4 January 1960 in Stockholm by seven states. Today only Iceland, Norway, Switzerland and Liechtenstein remain members of EFTA (of which only Norway and Switzerland are founding members).

individual member states as well as the UK, whilst viewing with some skepticism the grander European project.

For this reason, EEC paid the little attention towards Japan until the latter's Gross Domestic Product (GDP) reached such a high proportions that it was seen in international economic threat during the early 1950s. As they began to view Japan as direct threat to European economies, the countries of the EEC, and the UK initially opposed Japanese entry to the General Agreement on Tariffs and Trade (GATT) and insisted on implementing safeguard clauses in their bilateral trade relations with Japan(Rothacher :1983).

In the security dimensions, it soon became clear to the European, that they needed to keep the US both interested and military engagement in Europe (Lane1985:30). Thus unsuccessful attention was paid to the attempts to build a European Defense Community (EDC) to complement NATO's role in the region. In contrast any kind of security relationship with East Asia not considered seriously.

1.2.4 Japan and EEC Relations during the Cold War Period

During the Cold War period Japan and European Economic Community's relations were fairly limited. Divided Europe was geographically and ideologically caught in the middle of the Cold War standoff. Western Europe was mainly preoccupied with its economic and social reconstruction, while Japan took the US as its main point of reference in its foreign and economic policy.

Japan enjoyed the (and still enjoys) protection of the US nuclear umbrella and little effort until 1980, to reduce its security and defense dependence on the United States. For many years after World War II, the US was also Japans' main economic and trading partner. As Japan was a defeated power in the World War II and came under the so called occupation period of America. This Supreme Commander of Allied Power (SCAP) drew up the Japans' democratic constitution in 1947 and actively supported the country's reconstruction through the economic assistance and by opening market for Japanese products.

Japan's geographical role and position in Asia after the end of World War II was comparable with that of Germany in Europe. Both countries were occupied by allied force and both were of significant strategic importance to the U.S.

The United States' increasing economic and military power in the 1940s and 1950s, coupled with its growing influence on Japanese foreign and security policies in the context of the bilateral military alliance established in 1952, meant that Japan's relation with the Europe remained relatively insignificant part of its overall external relations policy.

For Europe and the emerging European Economic Community (EEC), growing ideological confrontations with the US, on one side and with the USSR and its Eastern European satellites, on other side, means that its relationship with the "far away" Japan was not a foreign policy priority either. In the words of Julie Gilson, "Japan and Europe had little or nothing to offer to each other's". It implies that after getting attracted to the two super powers (U.S & U.S.S.R), there was hardly any scope left for Japan to get engaged with the other remaining parts of the World in general and Europe in particular.

The US was a strong supporter of European integration and encouraged Japan to build strong links with the EEC and with six countries which established it in 1957. However, Japan's interest in EEC was very limited, as it regarded community simply as apolitical project to promote Franco-German reconciliation. The EEC, Tokyo argued, was an intra European affair with very few implications for business and trade relations between Japan and European counterparts.

Japan's economic rise in 1950s and 1960s was observed with suspicion by the EEC countries and the UK, as Japanese multinational companies (MNCs) have emerged as formidable competitors they sold their goods and products at cheaper price than their European counterparts.

In the 1970s and towards the end of the Cold War, there was a gradual paradigm shift in the Japanese foreign policy. Japan felt the need to promote stronger

relations with the, EEC and US. This was accompanied by an intensification of relations between Brussels and Tokyo, which eventually led in 1991, the Hague declaration.

1.2.5 Changing Dynamism in post Cold War

The Hague declaration is the corner stone in Japan and EC (European Community) relations as only after this there was an effort made from both the sides to intensify their political, security and economic relationship after the end of Cold War. The Hague declaration was signed on July 18, 1991 by EC Commission President Delors, EC Council President Lubbers, and Japanese Prime Minister Kaifu. The declaration contains a preamble which recognized Japan and EC's common attachment to freedom, democracy, rule of law and human rights, as well as their common attachment to market principles, the promotion of free trade and the development of prosperous and sound World economy. This declaration provided a more concrete foundation for mutual interaction and located trade discussion within a more comprehensive framework. In a nutshell, it can be said that 'the Hague Declaration' had ushered an era of Japan-E.U relationship which has been lying dormant till the end of the Cold War.

1.2.6 The Action plan for Japan –EU Co-operation

In December 2001 Japan and EU agreed to launch a joint action plan for 'Japan and EU cooperation' and a 'decade of EU-Japan cooperation' was initiated. This action plan identified more than 100 areas, where there was a scope for bilateral initiatives, ranging from joint peacekeeping and security cooperation, to strengthen economic cooperation and increased academic and cultural exchanges. The Action plan addresses four major objectives. These are following:

- Promoting peace and security
- To strengthening the economic and trade partnership utilizing of dynamism of globalization for the benefit of all.
- Coping with global and societal challenges.
- Bring together people and culture.

Among other things, it called for the intensification of Japan –EU cooperation in areas such as United Nations reform, arms control and nuclear non proliferation, conflict prevention, monetary issues, trade and fight against global terrorism and poverty, coping with ageing society's education and the environment. In 2002, at the eleventh Japan-EU summit, the Japan and the EU agreed to designate 2005 the middle year in the “Japan-EU cooperation” as the “Japan-EU year of people-to-people exchanges” with the aim of giving a further boost to exchanges at the people's level, which forms the corner stone of the cooperation between the two sides.

2. The Present Scenario

Looking at present situation it is clear that Japan currently accounts for 18 percent of the world's GDP, and it has a global responsibility to contribute to the peace and stability of the international community. Combined with the EU, the two accounts for 40 percent of the world GDP,⁷ and their bilateral trade is impressive and expanding. However, the market access obstacles forced by European companies and problems related to regulation continue to hinder European investments and business activities in Japan, despite former Prime Minister Junichiro Koizumi's result oriented efforts to open up the Japanese market to EU goods and services with the aim of increasing European Foreign Direct Investment (FDI) in the country by 100 percent by the end of 2010. Actually, it has remained a policy of Japan to play an increasingly creative role in the building of a new post-Cold-War international order based on democratic principles and free and market based economy. It is from this perspective that Japan has been working actively to foster a closer relationship with the European Union which has an increasing weight in international politics as it continues to grow.

There is an ever widening range of issues on which dialogue and cooperation between the EU and Japan is required. There are global issues as UN reform, disarmament and nuclear nonproliferation while amicable opinion needs to be formulated on regional problem(s) like the conflict in Bosnia-Herzegovina,(Axel Berkofsky,2007:07) development of nuclear capability in North Korea, and the Middle

⁷ <http://www.mofa.go.jp>, “European Union and Japan partnership towards a common future” 2005.

East peace process, the problems which derives merit from the cooperation of prosperous democracies.

In this context, the present study tries to delve into the issues that have influenced the economic as well as political relationship between Japan and EU, and will explore the factors which could have strengthened the same or shall affect in the foreseeable future of international relations.

3. Theoretical framework

There are various theoretical approaches through which the economic and political behavior of Japan and EU could be distinctly explained. Among the various theories the prominent ones to explain the nature of behavior of both the states are Neo-Realist, Neo-Liberal, Neo-Liberal Institutional, and Marxist. In neorealist approach, the principal units (state) must compete within anarchic global conditions to maximize their own power and position at the expense of others (Waltz, 1959). In such a conflictual international environment, these sovereign units will form coalitions only in order to influence policy in bargaining over the spoils of international material structure. It is within such a theoretical framework that relations between Japan and EU tend to be viewed most frequently. Each partner is a self maximizing unit in competition with other for limited economic resources and political power. This perspective is further reinforced by the portrayal of Japan – EU relations within a triangular framework in which they each seek to compete for Washington's attention and in which a two versus one competitive relationship tends to prevail. A broadly neorealist approach deals with the EU in one of two ways: either attempt to define twenty seven independent member states in competition for structural and material influence, or it regards the EU as some sort of supra state with state like powers on a ground scale. While in reality the EU is not a huge state, its main bodies do nevertheless possess a degree of independence that results from a certain pooling of sovereignty by its constituent members.⁸ Such a mixed pedigree is

⁸ Haigh notes that the EC is distinguished by its 'possession of institutions able to adopt legislation which directly bound the member states without further review or ratification by national institutions' in the European Community and international Environment policy, pp-229.

difficult to classify in neorealist confines, particularly when it comes to regarding the EU as an externally directed actor.

In case of Japan, according to this view, the state-centered aspects of Japan's economic development and the conduct of its international economic relations is most important. The state-centered economic policies has benefitted Japan in terms of relationship with EU and had established its diplomacy with the same, as Japan very effectively polarized EU trade politics and played one member state off one against another as each aspired to occupy relative gains. This can be seen in the initial introduction of Common Commercial Policy (CCP) where Japan could have established its diplomacy with the different state actors in Europe (Dent, 1999). While explaining both political and economic relationship between Japan and EU, the Neo-Realists argue that there has been relative shift from low politics to high in such a relation during the 1990s which has resulted in a significant improvement in their economic relations (Dent, 1999).

Neo-Liberals have a different line of argument for the above given relationship between the two states. Instead of emphasizing the state actors these scholars emphasized the central role played by various non-state actors in this area. They argue that there has been increasing importance of the non-state actors in the process economic policy making in the wake of 'globalization' which has paved way for 'transnationalism' in Japan. With the coming of more intensified wave of globalization in the last decade of the twentieth century, the interests of the 'keiretsu'⁹ in Japan is determined by various transnational actors and organizations. This has helped in redefining and reformulating Japan EU economic and political relations giving more space to the transnational actors and more of socio-economic adjustment from the state of Japan offering deregulations.

⁹“Keiretsu” is a phenomenon that exists in Japans industrial structure. Perhaps the best definition of Keiretsu is to describe it as an 'enterprise group'. These enterprise groups can range from very small associations to incredibly large and powerful groups. There are two types of keiretsu in Japan: vertical and horizontal.

The arguments posed by the Neo-Liberal Institutionalists are somewhat similar to the Neo-Liberals as both emphasized role of actors other than those of state-centric. The Neo-Liberal Institutionalists stressed over the role played by International organizations in Japan-EU economic relationship. There are influential organizations as World Trade Organisation (WTO), etc. which influences the economic as well as political diplomacy of a state. Analyzing the present situation it can be said that as per the view presented by the Neo-Liberal Institutionalists, EU is at more advantageous position vis-à-vis Japan in terms holding structural power at the multilateral level as the latter has not yet converted its economic power into commensurate political capital within the international community (Dent, 1999).

For the Marxists, the best explanation for the state's diplomacy in Japan-EU relationship can be attributed to 'geo-economics' strength which is a part of the struggle for supremacy between the capitalist powers. In such a scenario there has been full blown trade war between the capitalist states (Japan, and EU), and in this Japan continues to hold a sizeable portion of the trade with EU. As per the Marxists' perspective, the change of relationship between Japan and EU from 1990s has led to the disadvantage of the labor in the competition propelled by the Foreign Direct Investment (FDI) by the state. However opposite to this view, it has been understood by some scholars that FDI has led to assimilation and labor interests of the two states have converged with this effect.

Apart from the Neo-Realists' approach various other alternative frameworks focus more closely upon the role of individuals in driving interstate relations and upon the agent rather than the structure side of the debate (Giddens 1984: 22). In this way, the preferences of individual leaders, the growing role of European commission within the EU and the characteristics particular to the Japanese state can be examined. But although they may be compared, such internally oriented approaches still make it difficult to assess relations between the member states of the European Union and Japan, since in reality they function within the confines of an international environment which influences many of their interactions.

Increasingly, the need to synthesize such inward and outward looking approaches has been recognized and facilitated by the varied fields of interdependence theorists and those concerned with transnational relations, among others. The Japan and the EU relationship necessitates such a synthesis due to the unequal nature of this unique partnership between a traditional and self-reinforcing nation state, and group of twenty-seven states that is difficult to classify. While it is important to locate Japan-EU relations within the changing global system of which they are part, if this avoids the weaknesses inherent in the continual reference to Japan-EU relations as the weak side of the triangle, it is necessary also to examine this bilateral dialogue within its own boundaries and to explain how and why Japan and the EU have developed relations in the way that they have.

The approach adopted in the present study is not centered to a single approach or ideology rather a more comprehensive framework is being developed to examine the bilateral (Japan-EU) relationship. Also, various processes and actors' role will be seen as a factor influencing the development of ties between the two states along with the structures governing the same which is required to have a better picture of relation between Japan and EU in the foreseeable future.

Chapter-2

Japan-EU: Changing Dynamics of Political and Diplomatic Relationship

Various dimensions of relationship between two state(s) is basically determined or governed by the political and diplomatic ties a state is having with other(s). In terms of Japan's political approach towards EU a significant shift has been noticed since the end of the 'Cold War' as after that Japan's relations has transcended the traditional boundary of being limited to USA. After the end of the 'Cold War' a vacuum was created by the absence of the 'Soviet Union' as a rival power against the diplomacy of the US and this has resulted in the rise of several regional powers in the globalized world politics. In this backdrop, there has been an enhancement in the political and diplomatic relationship of Japan with European Union. The increase of political dimensions of Japan's relations with the EU can be attributed to the need of addressing more successfully trade disputes, the institutional momentum of European integration and the expansions of multilateral issues. Japan-EU relations have taken new and important dimensions in the decade of the 90s exactly since the 'Hague declaration'¹⁰ of 1991. Previously up till the Maastricht treaty Japan-EU relations were dominated by economic and trade issues and trade deficit with its visibility and political sensitivity. However the period since the Hague declaration of July 1991 could be noted as strengthening of cooperation and partnership in different areas. Conscious of their common attachment towards freedom, democracy, the rule of law, human rights and a common attachment to the promotion of free trade and market principles, both sides have decided to strengthen their cooperation and partnership in different areas in order to meet the challenges of the future.

The "Hague declaration 1991" was the first attempt to establish the objectives and framework for political dialogue between Japan and the EU and to build a comprehensive relationship. Earlier relations between two partners were dominated primarily by economic and trade disputes. In 1985 Marlis Steinert came to the conclusion: "The main reasons for the uneasy Japan- European Community relationship are mostly structural

¹⁰ http://www.deljpn.ec.europa.eu/relation/showpage_en_relations.political.hague.php.

and therefore difficult to eliminate”¹¹. Similarly, Reinhard Drifte was argued back in 1985 that “the most pressing issue in the Japan-Europe relationship is still the trade problem, or more specifically, the damage to major European industrial branches, which has contributed to the high unemployment rate. A serious approach to this problem is not only in the Japan-Europe interest but also crucial for the survival of the European Community and the continued growth of world trade” (Reiterer Michael, 2004:33-42). One could argue that today the lack of commercial disputes between Japan and the EU and the perceived lack of an autonomous Japanese foreign policy, motivated by more than a decade of economic problems, contribute to a diminishing interest in Japan by Europe.

After ten years at their tenth summit meeting in Brussels in December 2001, Japan and the EU adopted the EU-Japan action plan.¹² This new Action Plan broadens the political co-operation between Japan and the Europe to include the promotion of peace and security encompassing such issues as arms control, disarmament and non-proliferation, conflict prevention and peace building as well as human rights, democracy and stability. It reflects both the changes in the Japan-EU partnership and the new roles that Japan and the EU have fixed out for themselves in the rapidly changing international political scene of the post-Cold War period.

The present chapter tries to explain Japan-EU political relations, and will analyse security dimensions of Japan-EU relations. It discusses the impact of the enlargement of the European Union, the neighbourhood policy and the European security strategy. Further the chapter explores the feasibility of developments that are taking place in the dynamic World politics, in strengthening Japan-EU relationship in future.

¹¹ Marlis, Steinert “*Japan and the European Community: An Uneasy Relationship*” in Ozaki/Arnold. *Japan’s Foreign Relations - A Global Search for Economic Security*. West view Press, 1985; p.42.

¹²Shaping Our Common Future, An Action Plan for EU-Japan Cooperation <http://jpn.ccc.eu.int/frame.asp?frame=/english/eu-relations/actionplan>.

Impact of the Berlin wall on Japan – EU relationship

The Berlin Wall had impacted the relationship between different states around the globe as an informal division between ‘Communists’ (reflected by the Soviet Union) and the ‘Capitalists’ (reflected by the US) came into operation. The Berlin Wall, which had not only separated East from West Berlin since 1961 but had symbolized the ideological and physical division of whole European continent, was torn down in 1989. The collapse of the Berlin Wall in 1989 brought about not only a change in the structure of international relations in general but also set in motion a process of reunifying Europe. This process of reunification passed an important intermediary step on the way to a fully united Europe with the signing of accession treaties by ten countries in Athens on 16 April 2003.

For Japan, the 1990s marked an increasing interest in the integration of Europe taking shape, in addition to the end of the Cold War and the collapse of the Eastern bloc symbolised by the crumbling of the Berlin Wall, and the creation of single market in 1992 was a striking although not always welcome development. However, taking advantage of the situation the covetous Japan in 1991 became the founding member of the European Bank for Reconstruction and Development in London whose contribution could have brought a wonderful investment opportunity in the former Eastern Bloc. Along with this, the fall of Berlin Wall had brought a chance for Japan to overcome various previously existing bottlenecks in the way of its investment in the Western Europe.

Japan-US relations and the change in international relations after 1990s

Since the time of ‘opening’ of Japan to the ‘rest of the world’, US had a major share (vis-à-vis other state(s)) in all sorts of relationships with the state of Japan. After the Second World War however the US had established its diplomacy over Japan and began to be the major decider if not the sole determinant of Japan’s foreign relations.

After 1990s while the Japan-EU relationship was beginning to mature, the Japan-US relationship, on the other hand, witnessed growing tensions: trade conflicts and Japan bashing were flourishing with the famous “no” to numerical trade targets by then Prime Minister Hosokawa to President Bill Clinton in 1994 being one of the highlights (Hook/Gilson/Hughes/Dobson, 2001: 532).

During the 1990-91 Gulf War Japan resisted any pressure to participate militarily because of deep aversion to hostilities as well as the War renouncing article-9¹³ of Japanese constitution. It did however pay 13 billion US dollar towards War efforts. This considerable amount did not spare it from criticism and did at that time not even warrant a “thank you letter”. Japan learned from its ‘mistake’ in 1991 and its reaction to the second Gulf War (2003) was completely different (Reiterer: 2004).

In spite of the conflict in the Persian Gulf, the former US President George Bush Sr. and other world leaders wanted to reap a “peace dividend” from the fall of the Berlin Wall. Initiatives such as Ballistic Missile Defense,¹⁴ designed to protect Japan against North Korea especially, were abandoned at that time much to the regret of today’s Japanese politicians. The US Department of Defense foresaw even a substantial reduction in the strength of US forces in East Asia: with the fall of the Soviet Union the raison d’être for the US-Japan Security Pact seemed to have vanished. This caused a crisis in the security relationship between the US and Japan until the 1996 US-Japan Summit re-endorsed the Security Pact with Japan as well as the presence of at least 100,000 troops in East Asia.

¹³ Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

¹⁴ At the time, the US was still bound by the Anti-Ballistic Missile (ABM) Treaty which was only renounced by President George W. Bush in 2002 as part of his unilateral policy.



At these times of change, Japan failed to profit from the demise of the Soviet Union while the map of Europe was redrawn, no peace settlement was reached with a weakened Russia (Hook/Gilson/Hughes/Dobson, 2001: 89-102). The “Northern Territories” remain a stumbling block to the normalisation of relations although the issue was successfully sidestepped at the 2003 Japan -Russia Summit.

Thus the last decade of 20th century brought Japan and EU closer, especially economically. The introduction of euro was a major boost, five days after the introduction of the currency on 1 January 1999, then Prime Minister Obuchi advocated in Paris enhanced trilateral cooperation between the yen, euro and dollar to establish a new financial order, monitoring exchange rates with certain parameters all with the clear aim of avoiding a marginalization of the yen.

Change in Japan’s approach towards international politics over the last decade

As noted above there has been a change in the ‘global politics’ and therefore the ‘international relations’ after the end of the ‘Cold War’, Japan remaining no exception has altered its approach towards the various international events. The Iraq crisis 2003 in comparison with the last one (1990-91) is a good example of how Japan has changed, as indeed have its relations with both Europe and the United States as well as with the international community as a whole.

In 1991 when Japan dispatched minesweepers after the first Gulf War this gave rise to fierce domestic debates as this action contravened a ban issued by former Prime Minister Sato in 1972. While military participation in the hot phase of the second war against Iraq was never seriously contemplated, when an Aegis- equipped destroyer was dispatched to the Persian Gulf and when Japanese vessels refuelled ships operating in the Arabian Sea to support military operations in Afghanistan, few voices were raised in opposition.

In 2003 Prime Minister Junichiro Koizumi supported the US not only politically against the will of the majority of the Japanese public opinion, but he even managed to pass a law in the Japanese Diet allowing the dispatch of Self Defense Force (SDF) non combat troops for humanitarian tasks. (Even though the ever deteriorating security situation in Iraq especially after the attack on United Nations Headquarters in Baghdad and the killing of two Japanese diplomats in November 2003 endangered only temporarily the dispatch of these troops.) Conversely, due to Japan's decade long economic problems, Japan's share of the burden of the reconstruction of Iraq was falling to dollar 5 billion, well short of the 13 billion dollar pledge in first Gulf War.

While the Iraq crisis saw Japan flexing its diplomatic muscle more visible, the issue of North Korea continues to haunt Japan's diplomacy. The concentration of Japanese politics with the sad fate of the abductees has, at times, been given priority over national security issues related to missiles development and nuclear armament in North Korea. This over concentration allows North Korea to set the path and the tone in its dealings with Japan, thereby weakening Japan's bargaining power in international fora, such as the six party talks or the 2003 APEC¹⁵ Summit.

These change reflect not only the growing reliance on US military might following ten years of unrestricted supremacy by the US, but also new threats to post Cold War World emanating from terrorism or failing states.

The combination of the humiliating need to rely on the US even at the EU's door step combined with the US reluctance to seriously consult with all European partners,

¹⁵, Asia-Pacific Economic Cooperation (APEC) was founded in 1989, is a forum for 21 Pacific Rim countries (styled 'member economies') to cooperate on regional trade and investment liberalisation and facilitation. APEC's objective is to enhance economic growth and prosperity in the region and to strengthen the Asia-Pacific community. Members account for approximately 40% of the world's population 44% of world trade.

inside and outside NATO, gave a boost to long simmering ideas to strengthen the European component within and outside NATO.

The EU continues to rely on the United States as well, as the EU has so far not developed the common political will to fill the “super power vacuum” left by the collapse of the Soviet Union in Europe. Yet one of the positive elements of the present debate on EU enlargement and European institution building is the growing political will to strengthen both, the European Common Foreign and Security Policy (CFSP) as well as the European Common Security and Defense Policy (ECSDP). The latter includes developing a credible European military dimension to which the European Union Military Committee (EUMC), the European Union Military Staff (EUMS) and the Politico-Military Group already now contribute. Thus, in addition to the Petersburg Tasks a more active role is being prepared for the EU, a Rapid Reaction – not intervention – force, as is closer co-operation with NATO. The very recent initiative to set up a European planning structure in parallel to NATO by four Member States will at the end of the day be integrated into the mainstream if not backed by a majority of the EU Member States.

The EU President Prodi declared to a Japanese audience: “Friendly relations and cooperation between Europe and the US are the foundation for peace and economic development and the role played by NATO has become more important than ever before. However, of NATO’s two pillars, the US side is prominent while the European side is weak. Europe needs to build a (strong) pillar too. A relation between two equals is stronger than a relation between a strong pillar and a weak pillar”¹⁶.

The Prospects for an enhanced partnership for the Japan-EU

Japanese Foreign Minister Kono prepared the ground in his policy speech in Paris in 2000. The yearly summits as well as the Japan-EU Action Plan have confirmed this

¹⁶ Nihon Keizai Shinbun, May 11, 2003.

trend. While the EU is not the United States of Europe and it cannot pursue yet a single foreign policy, the Union has continuously enlarged the common European ground on foreign and security policy, despite Iraq. Thus a common albeit not yet single foreign and security policy is alive and developing.

The planned European Foreign Minister, comb-out the functions in 2003 performed by the High Representative for Foreign Policy, Javier Solana, and the Commissioner for External Relations, Chris Patten, was finally provided the necessary “face” to a European foreign policy and hopefully to an increase in coherence and efficiency if backed by a professional European Diplomatic Service.

Japan and the EU have begun to see security co-operation increase. Building up from Japan’s engagement in Kosovo, and the EU’s role on the Korean Peninsula, Japan and the EU have intensified their joint diplomatic efforts in difficult areas such as Sri Lanka, Aceh¹⁷ and Afghanistan.

Secondly, economic cooperation and trade policy has long been the cornerstone of the EU-Japan partnership and it will continue to be so. (Chapter -3 will deal in detail about the economic cooperation and trade policies) This area is the strength of the EU not least because institutionally it is an area of clear competence for the European Commission assuring one voice. Trade policy is also an area of strength for Japan, although both the EU and Japan have had to learn that economic might alone is not enough – political influence at the end of the day still passes through the military as the world was reminded of recently by reintroduction of the use of force into world politics by a more and more unrestrained US.

Therefore co-operation is in the interest of both, the EU and Japan. This applies in particular to the World Trade Organisation (WTO) as it strengthens the multilateral

¹⁷ **Aceh** is a special territory (*daerah istimewa*) of Indonesia, located on the northern tip of the island of Sumatra. Its full name is **Nanggröe Aceh Darussalam**. Past spellings of its name include *Acheh*, *Atjeh* and *Achin*.

system, which is important for governance in all other areas of international politics, not only in economics. Restarting the Doha Development Agenda (DDA) after the failure of Cancun, need joint efforts by the EU and Japan as they are the second and third largest economies of the world. In order to achieve sustainable development the EU and Japan have to work together to ensure increasing wealth, health, and fight technological gaps in the world; this is not only a humanitarian or noble exercise but one of self-interest, to assure mutual survival. Furthermore, both partners have profited greatly from multilateralism, especially in the area of the trading system. Therefore they should make joint efforts not only to preserve past achievements but to modernise the WTO and some of its policies to strengthen multilateralism.

Political/ Diplomatic relations of Japan with key members of EU Countries

From the latter half of the 1990's Japan and Europe began to strengthen cooperation in a broader scope of relations. In particular, Japan and three European countries, the United Kingdom (UK), France, and Germany, launched bilateral cooperation programmes in a wide range of areas.

With the UK it started with a "Japan-UK Action Agenda" in December 1995,¹⁸ it was revised as a new Action Agenda for a Special Partnership in September 1996. The promotion of global peace (cooperation on security and political issues) and prosperity (cooperation on economic issues), and promoting Asia-Europe regional cooperation were the three pillars of this revised agenda. Former Japanese Prime Minister Hashimoto and former British Prime Minister Tony Blair agreed on a "Common Vision to the 21st century" in January 1998 and emphasised the importance of reform and investment, enhancing Asia-Europe relations, and cooperation towards a better global community. These two countries, attached importance to encouraging, "people to people contact" between two countries. In September 1999, Foreign Ministers Koumura and Cook launched "Action Agenda 21: the Japan and UK in the 21st century". "Based on a

¹⁸ http://www.mofa.go.jp/region/europe/uk/uk_agenda.html

common vision” document, the two countries defined wide ranging cooperation in 21 areas: education, culture and sport; Japan-UK 21st Century Group; parliamentary exchanges; exchange of government personnel; regional links; non-governmental organisations(NGOs); trade and investment; finance; world trade and international finance; science and technology; health and social security; employment; reform of government; diplomacy; national security; conflict prevention and peace keeping reform; reform in united nations; humanitarian assistance; disarmament and non proliferation; human rights; counter terrorism, international crime and drugs (Takako Ueta, Eric Remacle: 2005).

With Germany an “Action Agenda for the Japan- Germany Partnership”¹⁹ in five areas was agreed to in may 1996. They were revised in October 1997 as follows:

- Promoting peace and stability of the international community
- Cooperation in the international economic system
- Cooperating in common tasks such as environment and development
- Cooperating in Asia- Europe relations such as ASEM
- Strengthening Japan- Germany bilateral relations

This Action Agenda developed into the “seven pillars of cooperation for the Japan- Germany relations” in the 21st century in October 2000. In essence, among the five areas mentioned in the 1997 Action Agenda, bilateral relationships, adding another two areas to make seven pillars and Europe –Asia relations were divided in to political, economic and cultural relationships, adding another two areas to make seven pillars, and Europe-Asia relations were transformed into contribution to the stabilization of regional situation.

As for France, in November 1996 the “Japan -France 20 Actions for the year 2000” were agreed upon between Japanese Prime Minister Hashimoto and French

¹⁹ <http://www.mofa.go.jp/region/europe/germany/agenda.html>

president Jacques Chirac. The 20 Actions were divided in to three categories; more regularized and intensive consultations, strengthening bilateral cooperation, and joint Actions towards 21st century.

Each Action Agenda had its specifics, emphasis and categorisation. However specific items for cooperation with the UK, Germany and France bore more similarities than differences. These items ranged from multilayered consultations, human exchanges, cultural exchanges, economic cooperation, and assistance to developing countries, the environment, and globalisation, Asia and Europe, regional instability, the United Nations, disarmament, non proliferation and conflict prevention, etc.

Japan-EU cooperating in Regional Forums:

The Japanese policy makers and other pressure lobbies not only interact with their European counterparts on an individual member state level and within a Japan-EU dialogue, they also meet European officials and non Governmental representatives in a number of regional and global organisations. Some of these could be categorized as World Bank (formerly International Bank for Reconstruction and Development), United Nation, WTO, and also the G7 or G8²⁰ meetings however discussion of these will remain outside the scope this research. The present research will have its focus on ASEM.

Multilateral opportunities:

Japanese and European interlocutors began to create important networks and coalition in the 1990s within fora as varied as the United Nations (UN), Organisation for Security and Cooperation in Europe (OSCE), the Korean Peninsula Energy Development Organisation (KEDO), the Association of South East Asian Nations Post Ministerial

²⁰ The Group of Eight (G8, and formerly the G6 or Group of Six) is a forum, created by France in 1975, for governments of eight nations of the northern hemisphere: Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States; in addition, the European Union is represented within the G8, but cannot host or chair.

conference (ASEAN-PMC), the ASEAN Regional Forum (ARF) and ASEM. Cooperation at these levels of engagement now constitutes fundamental components of Japan-EU relations. These fora serve two principle purposes: they provide additional formal channels through which Japanese policy makers became acquainted with their European counterparts; and they provide the Japanese government with the potential to exercise power to both over other members of the given community as well as over states and regions which lie outside it.

Asia-Europe Meeting (ASEM)

The Asia-Europe Meeting is the newest multilateral forum in which Japanese policymakers can meet with their European counterparts. It began with a summit of heads of state in Bangkok in 1996 and, as its name suggests, brings together representatives from the two regions of East Asia and Europe. The East Asian bloc comprises seven of the member states of ASEAN alongside China, South Korea and Japan, whilst the Europeans include representatives of the fifteen EU member states together with the European Commission president. At Bangkok in 1996, it was decided that the second summit meeting would be held in London in 1998 and the third in Seoul in 2000.

The heads of state meeting itself represents the apex of a range of ASEM related activities which spans the three key dimensions of politics, economics and culture. Some concrete agenda has since the establishment of ASEM, although mostly in the economic field. With regard to the political issues, ASEM till 2000 has offered little more than pledges to respect general democratic principles (Bridges: 1999). It nevertheless forms an additional dimension for Japan-Europe relations and is used by Japanese policy-makers in their relations with Europe in several ways.

First, ASEM deals directly with concerns and issues between Japan and the EU bilaterally. In addition, it allows for the discussion of these concerns in a forum which embraces three of Japan's most important regional neighbours. Moreover, it also provides

a way for Japan to play a greater international political role without military implications, because its primary focus is upon trade matters and other non-military topics of contemporary interest. In the political arena, the most important issues under discussion in ASEM include UN reform, international terrorism and drugs trafficking, conventional and nuclear arms control and regional stability in Europe and Asia. As such, it has been used by Japanese policy-makers as a forum in which to emphasize the development of quiet diplomacy²¹.

Second, the ASEM enables the Japanese government to instrumentalize its relations with Europe to support its policy towards East Asia. Japanese policy makers can employ proxy diplomacy by getting the EU to voice some of its regional proposals without raising fears of East Asian countries regarding Japanese motives. At the same time, they are able to instrumentalize Japanese international relations with the rest of East Asia in areas of common concern with the EU. Similarly the forum can be used by the other member countries also as a means to exert pressure on Japan, for example in London in 1998 when Japanese policy-makers were urged to play a bigger role in the resolution of the East Asian financial and economic crises. In addition, the Japanese government uses ASEM to respond to the growing regional and global dimension of Japan-Europe relations more generally (Maull. 1998:171).

Third, Japanese policy-makers have used ASEM as a means of strengthening its relations with the rest of East Asia (Gilson: 1999). The unique characteristic of this meeting is that it sets one region alongside another: Europe and East Asia. In so doing, Japan is able not only to develop further its regional relations without creating tension between its neighbours, but also to sit around a table with other East Asian powers. Indeed, Japanese participation in various pre-ASEM Asian-side discussions also prompted US criticism that the plans of Prime Minister Mahathir of Malaysia, for an East

²¹ *Nikkei Weekly* 12 April 1999

Asian Economic Caucus (EAEC),²² were being realized, and that Japan was adopting a uniquely Asian stance in the whole meeting.

ASEM is the most important forum in which Japan and Europe meet with the presence of the US. For this reason, it can act not only as a counterbalance to the role played by the US in the East Asia region, but also to establish an agenda which does not prioritize US concerns (as occurs in the WTO and APEC, for example). ASEM may also create a long-term relationship in which there is greater scope for reciprocity over different issues and within both East Asia and Europe (Hook/Gilson/Hughes/Dobson, 2001). Similarly, the overarching framework of ASEM means that Japan can address European concerns within this forum and participate on the European continent, and in return can expect European cooperation in East Asia.

Finally, as a 'bilateral' (Asia-Europe) dialogue, ASEM contributes to the deepening of relations between the two weakest sides of the Japan-US-Europe triangle. This trilateral aspect has also become most important within Japan-Europe relations themselves, such that the 2000 G7/8 meeting in Okinawa pledged to expand relations between East Asia and Europe, and to establish a Japan-Europe Millennium Partnership to help keep the US committed to its multilateral engagements.²³ In this way, ASEM also expands the 'Japan' pole to include other major East Asian players, in recognition not only of the growth of the other two interlocutors within the triangle (whereby the US incorporates NAFTA and the EU has expanded and integrated further), but also of the growth of regions within the globalizing political economy.

²² The East Asia Economic Caucus (EAEC) is a regional free trade zone (FTA) proposed in 1990 by former Malaysian Prime Minister Dr. Mahathir Bin Mohamad and encompasses the Association of Southeast Asian Nations (ASEAN) member states, China, South Korea and Japan. Japan though refused participation out of its loyalty to the US. The EAEC was a reaction to ASEAN's integration into the Asia Pacific Economic Cooperation (APEC) by Dr. Mahathir, who is known for his strong Asian standpoint.

²³ *Financial Times*, 14 January 2000.

Japanese cooperation with OSCE and the Human Rights issues

The first Japanese involvement in European politics and security was its acceptance as a non member state in the Conference on Security and Cooperation in Europe (CSCE) which later came to be known as an Organisation for Security and Cooperation in Europe (OSCE) in 1994. In 1992 at their Helsinki summit meeting. Japan was accepted as a partner for cooperation, invited to major conferences with the rights to speak, but without voting rights. Six Mediterranean states²⁴ as well as South Korea, Thailand and Afghanistan²⁵ now hold the position of partner cooperation.

Since then, Japan has made some contributions to the OSCE, such as sending lecturers or making financial contributions for seminars. Japan's position regarding human rights might be summarized as follows:

- Japan believes that it has something to say regarding the importance of human rights, based on its own experience in postwar democracy and even on prewar Taisho democracy.
- Japan's position has always been accompanied by certain humility, because Japan realized through her own experience that protecting human rights is a difficult task and that each country must find its own way.
- Japan is aware of her persistent war responsibility issues and is reluctant to preach others about inadequate commitment to human rights issues.

These factors have led to a policy approach characterized by 'gradualism'. In this context, the Diplomatic Bluebook 2002 carried an interesting passage. At the UN Commission on Human Rights, where "an overtone of confrontation between the Western countries and the developing countries" was marked, "Japan continued to serve

²⁴ Algeria, Egypt, Israel, Jordan, Morocco, and Tunisia.

²⁵ <http://www.osce.org/ec/partners/cooperation/partners/2003-07-20>

as a bridge between the countries of Asia and Africa and the other regions, based on its position that human rights are universal values in the international community” (Diplomatic Bluebook 2002).

Japan-EU joint Foreign policy interest

The 2005 Japan-EU Summit was concluded with an understanding that the political relations between Japan and the EU were not satisfactory and need to be boosted. Building on a sound basis of Japanese-European teamwork cooperation in the crisis areas of the Western Balkans, Sri Lanka, Afghanistan, Iraq, as well as in the UN and in Korean Energy Development Organisation (KEDO) the discussion about the lifting of the Chinese arms embargo accelerated this development. In reaction to opposition expressed by the US and Japan, bilateral discussions with both partners started which lead to the installment of a fruitful bilateral strategic security dialogue on East Asia’s security environment between the EU and the US and Japan. This dialogue provides as a chance for the European Union to position itself more actively as politically or strategically interested partner in East Asia thereby avoiding that a regional bi-polar system based on the US–Japan and Chinese axis be established.

In losing out to such a configuration the EU would lose twice: firstly, it would lose its ground on the field of engaging in multilateralism. The EU has in the past already cooperated with Japan to maintain a multilateral trading system in particular, further it has cooperated with Japan in effective multilateralism in general (e.g. Kyoto Protocol, Anti-Ballistic Missile Treaty, Convention on Prohibition of Anti-personnel Mines (Ottawa Treaty)), resisting thereby the unilateral measures by the US. The second loss would be that the EU would come into a position that it is forced to choose sides in such a bipolar set-up and it would be difficult not to choose the two allies, the US and Japan, although the EU has put considerable efforts into engaging China and bringing it as a responsible partner into an international system based on multilateralism.

Japan in turn, has consistently shown interest in the regional stability of Europe. Japan became a Partner for Cooperation in the OSCE, joined the Stability Pact, engaged in the Western Balkans and continues to do so as evidenced by the organisation of symposia and meetings on the security in the Western Balkans. (Diplomatic Bluebook 2005:83-84) Furthermore, Japan is interested in the ongoing enlargement process and the development of the ESDP as well as the EU's relationship with NATO. As the euro has become the second most important transaction and reserve currency, Japan follows closely the development of the euro zone. (Diplomatic Bluebook 2005:78-80)

The capacity and capability of the European Union, like Japan a "civil power" but also contemplating change, to contribute to solving a few of the following pressing concerns of Japan is perceived to be rather limited in Japanese eyes: finding a solution to the Korean Peninsula (peaceful reunification), North Korea (WMD, nuclear threat, problem of abductees), security of energy supplies, maintaining peace in the Taiwan Straits. Furthermore, the very nature of the Union, its particular way of functioning, decision making and representation, is often confusing to Japan. The evolving Common Foreign and Security Policy as well as the European Security and Defense Policy, hampered by the rejection of the European Constitutional Treaty which would have introduced the position of a European Foreign Minister²⁶, are not easy to grasp and difficult to lock on to for a nation state.

Japanese cooperation with former Yugoslavia

One of countries where Japan was involved and made direct contributions was former Yugoslavia. Japanese contributions to Yugoslavia and European contributions to Korean Peninsula Energy Development Organization (KEDO) were sometimes perceived as parallel support, or cross support, regarding security matters of critical importance in each region. During the 1990's Japan made a total of approximately \$1 billion in humanitarian and reconstruction assistance to former Yugoslavia:

²⁶ Reiterer M. (2005) " *the new constitution for Europe: the European Union as global actor*" EU Study Japan 25:55-84

Japan's contribution to reconstruction of Western Balkans

Mine-Clearing: Assistance totaling 910 million yen has been implemented to Bosnia and Herzegovina, Croatia and FYRO Macedonia through international organizations and NGOs. Removal of landmines and unexploded bombs and supports for rehabilitation, pain therapy and skill training for social reintegration of mine affected victims are conducted (MOFA: 2004).

BHN (Basic Human Needs): Assistance totaling around 24.579 billion yen (on bilateral basis) has been implemented to improve the basic human needs sector within the Western Balkan region. As in Healthcare sector, emphasis is on the equipment of medical facilities and many projects of grant aid have been implemented in Bosnia and Herzegovina and FYRO Macedonia. Trainees on hospital management are accepted in Japan and experts on maintenance of medical equipment and facility management are being sent to the region²⁷.

Social and Economic Infrastructure: Reconstruction assistance has been made for the development of social and economic infrastructure destroyed by the conflict. The assistance of 21 billion yen has been provided for public transportation, road construction and electricity provision.

Bosnia and Herzegovina "Sarajevo City Public Transportation Reconstruction Project"(1.399 billion yen, 1996-1997: Sarajevo has been exposed to the continuous gunfire in four years of conflict resulting in the devastating destruction of public facilities, affecting people's life seriously. Public transportation system in Sarajevo has also suffered a major damage and above all, the number of public bus, a daily transportation means among the citizens, has declined to one fifth of the pre-conflict time. Under such circumstances, a total of 80 buses have been granted for the reconstruction of bus routes in order to ensure stable civil life, to activate economic

²⁷ <http://www.mofa.go.jp/region/europe/balkan/action.pdf>

activities and to secure transportation means of conflict affected people to visit hospitals. As a symbol of peace achieved by overcoming the conflict damage, a “yellow bus” is circulating the town of Sarajevo today.

Kosovo: Japan has provided assistance, total of 186.75 million US dollars to Kosovo. Through international organizations and NGOs this humanitarian and reconstruction assistance has been used for reconstruction of houses and educational facilities, media improvement, DDR (Disarmament, Demobilization and Reintegration) support. To support the neighboring countries; Albania and FYRO Macedonia, which accepted the refugees escaping from the Kosovo Crisis, 62.63 million yen has been granted in two years in order to implement food assistance and medical equipment provision²⁸.

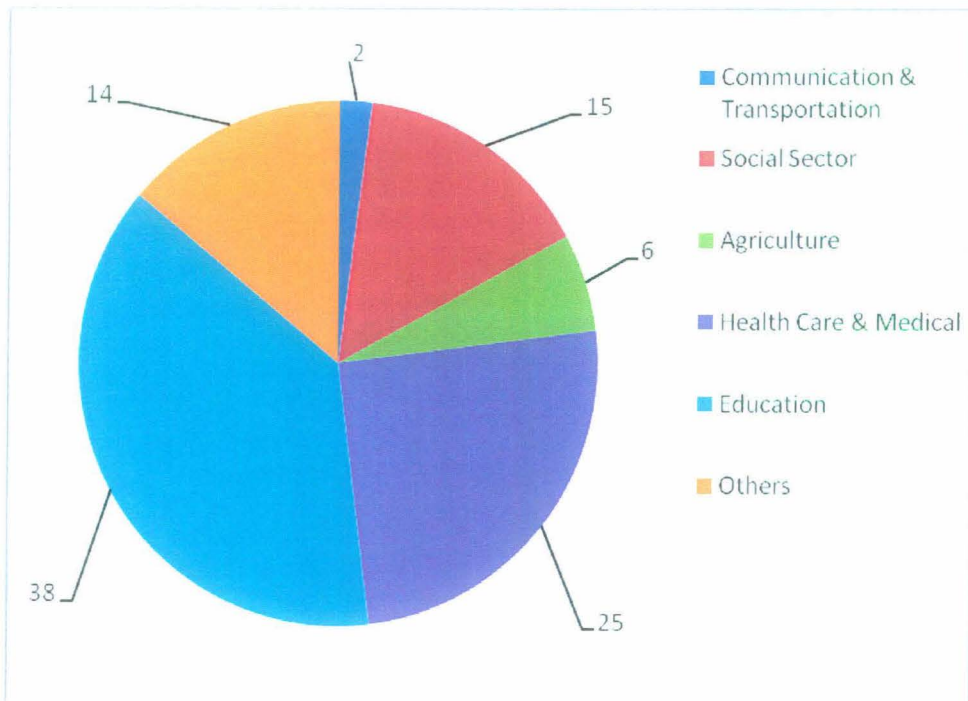
Kosovo Small Arms Recovery Plan” (Implemented by UNDP, 1.03 million US dollar, 2003: Japan supports the concept of “human security” which aims at rebuilding nations through empowering communities and individuals. These efforts should be achieved by protecting and empowering people whose lives, livelihoods and dignity are seriously threatened. Japan established “Human Security Fund” within the United Nations in March 1999. In Kosovo, there still exist serious issues such as ethnic conflict and organized crimes, which is believed to be aggravated by the prevalence of illegal small arms. Today, most of the arms used in the crimes and terrorism worldwide are small arms. This is why eradication of small arms is indispensable to peaceful society and stability in the region as well as sustainable development. In Kosovo, however, more than 100,000 illegal small arms are said to be uncollected, threatening the public order and civil life. Japan extended assistance of a total of 1.03 million US dollars to “Illicit Small Arms Control Programme” implemented by the UNDP through the Trust Fund for the Human Security in order to contribute to stabilizing the situation of Kosovo²⁹.

²⁸ <http://www.mofa.go.jp/region/europe/balkan/action.pdf>

²⁹ *ibid*

Grassroots human security grants assistance: Japan is conducting Grassroots/Human Security Grant Assistance to directly benefit residents aiming to improve the living standard of them and to enhance capability of communities in developing countries. To the Western Balkan region, Japan has extended the total of 1.636 billion yen comprising 626 million yen to education sector (restoring elementary schools, providing heaters), 412 million yen to healthcare and medical sector (reconstructing hospitals, providing medical equipments), 93 million yen to agriculture sector (promoting agriculture), 239 million yen to social sector (supply of safe water, supporting social integration of returned soldiers), 39 million yen to infrastructure for communication and transportation and 225 million yen to other activities including mine clearing.

Figure2.1 Japan’s Grassroots human security grants assistance to Western Balkans:



Source: Ministry of Foreign Affairs of Japan (MOFA), July.2004

Serbia and Montenegro “Ribnica Village Sveti Sava Elementary School” School Restoration Project (6.44 million yen, 2002): Since the national economy of

Serbia and Montenegro has been devastated by the prolonged conflicts and following economic sanction, the government is currently unable to provide enough support in repairing destroyed or degraded educational facilities. Located within the industrial city, Ribnica Village is experiencing rapid population growth. Sveti Sava Elementary School is facing a sharp rise in its number of students as a consequence, accelerated by accepting numerous Kosovo IDP pupils. Students are forced to attend classes under harsh conditions with their school building degraded and heating instruments not functioning during severe winter. Japan has supported the restoration of the school building to improve educational environment and through this kind of contributions in the education sector, it has helped to promote ethnic reconciliation. Furthermore, Japan has assisted school restoration and provided educational equipments to 29 other elementary schools in Serbia and Montenegro with same kind of problems in order to improve the quality of basic education³⁰.

Support for democratisation: Election Assistance: Japan has made personnel contributions by sending monitors to the OSCE mission for the verification of the elections to the elections held in Bosnia and Herzegovina, Kosovo and FYRO Macedonia. In addition, Japan implemented an emergency aid of 1.041 million US dollar to OSCE for the Kosovo municipal election in 2002 (Axel Berkofsky, 2007:11).

Japan –EU Security Cooperation

Japan is aware that any security cooperation with the EU can only be complementary to its military and security cooperation with the US, which is centered on traditional military security. In contrast, Japan-EU security cooperation emphasises the non military aspect of such cooperation.

³⁰ <http://www.mofa.go.jp/region/europe/balkan/action.pdf>

The effectiveness and the results of any joint efforts to contribute to global peace and stability will inevitably depend on Japan's ability to successfully apply both approaches simultaneously.

Discussions during the April 2006 Japan-EU summit covered political and economic themes, global challenges (particularly energy), and a range of key international issues, including East Asian regional cooperation, relations with China, the Korean Peninsula, Russia, Iran and the West Asia.

Regular exchanges on important international issues are a necessary part of Japan-EU cooperation, but discussions between leaders from both sides at the one-day bilateral summit focused on the most relevant themes for Japan-EU relations, including seeking concrete and visible progress on the issues mentioned in the first chapter of the 2001 "Japan-EU Action Plan".

Over the last decade, Brussels and Tokyo have undertaken a number of joint initiatives and established bilateral dialogue forums to deal with international non-proliferation and security issues. These have included:

- Agreeing to jointly promote the reform of the Conventional Weapons Protocol on anti personnel landmines;
- Supporting the conclusion of the Comprehensive Test Ban Treaty (CTBT);
- Signing an agreement on universal adherence to the Nuclear Non-Proliferation Treaty;
- Jointly supporting implementation of the principles and objectives for nuclear non-proliferation and disarmament;

- Promoting the non-proliferation of nuclear weapons and the abolition of anti-personnel landmines through Joint support for the Ottawa Convention of 1997 and the November 2002 International Code of Conduct against Ballistic Missile Proliferation;
- Engaging in joint peacekeeping and peace-building initiatives;
- Holding European-Japanese seminars, training and workshops on post-conflict nation-building in Afghanistan, Cambodia and a number of African countries;
- Holding regular joint training sessions for UN peacekeepers;
- Engaging, since July 2002, in periodic consultations on terrorism and counter-terrorism cooperation;
- Signing the 'Joint Declaration on Nuclear Disarmament and Non-proliferation' in June 2005.³¹

However Japan-EU cooperation on nuclear disarmament and the abolition of all nuclear weapons lacks credibility given that Japan continues to enjoy the protection of the US nuclear umbrella, while in Europe nuclear disarmament is neither a priority nor even an option at least for the time being, for at least two EU member states: the UK and France.

After North Korea's nuclear test in October 2006, some leading members of the Liberal Democratic Party (LDP) indicated that a nuclear-armed North Korea could reignite the debate in Japan about developing its own nuclear deterrent. This was originally discussed in the 1970s, albeit unofficially and in secret, and there is little doubt

³¹ The aim of this agreement is to support the strengthening of the Non-Proliferation Treaty, Comprehensive Test Ban Treaty, Main Battle tank and Light Armour Weapon Law and the International Atomic Energy Agency's Comprehensive Safeguard Agreements and Additional Protocols.

amongst experts and analysts that Japan (like South Korea) has the know-how and technology to develop nuclear weapons within a relatively short period of time.

Only a small minority within the LDP currently favors this approach, but further nuclear tests and evidence that Pyongyang is actually starting to deploy nuclear missiles could push Japan to consider developing an EU and Asia February 2007 19 nuclear arsenal to deter North Korea. However, Prime Minister Abe has repeatedly confirmed Japan's policy of not developing or stationing nuclear weapons on Japanese territory so this does not appear to be an option for now.

Action Plan for Japan-EU cooperation

On 13 January 2000 former Japanese Foreign Minister Yohei Kono, during his European tour, stopped in Paris and made a policy speech on Japan -Europe relations entitled "Seeking a Millennium Partnership: New Dimensions in Japan-Europe Cooperation"³². Kono intended to show Japan's reaction to the tremendous dynamism of European integration that had been particularly strengthened in security and foreign policy in the preceding years. The underlying thinking in drafting this speech to emphasize political cooperation between Japan and Europe could be summarized as follows:

- Japan and Europe in the post World War II era each developed its own society based on common values: democracy, market economy and peace. Of course there were difference due to history, tradition, and culture; Japanese democracy was a consensus democracy, where individuals could be subordinated under the general trend of the society, but still they were heading in the same direction.

- At the same time, after a half century of postwar development Japan and Europe had common problems internally (such as social welfare, aging and women's

³²See www.mofa.go.jp/region/europe/eu/summit/action0112.html - 69k

rights), externally (such as the United Nations, disarmament, non-proliferation and conflict prevention), and globally (such as development, the environment, population growth and globalization). Again the way these problems were handled differed, but it was precisely for this reason that Japan felt that there was benefit in mutual exploration of the issues.

- These common grounds brought Japan and Europe to share a *common responsibility* in resolving these problems. In doing so, Japan and Europe were situated in a complementary geopolitical position in the East and the West of the Eurasian continent.

Based on this thinking Kono proposed to make the first decade of the 21st century (2001–2010) as “The Decade of Japan-Europe Cooperation” and outlined three pillars of cooperation:³³

- Realizing shared values while respecting diversity;
- Strengthening Japan-Europe political cooperation, in particular, the prevention of conflicts, disarmament and non-proliferation, reform of the United Nations; and
- Sharing the benefits of globalization.

Japan-EU Action Plan of 2001

The Japan-EU Summit in July 2000 in Tokyo, held just before the Okinawa G8 Summit, accepted the Kono proposal and agreed to name the first decade of the 21st century ‘The Decade of Japan- Europe Cooperation’.

³³ For information see “SHAPING OUR COMMON FUTURE: An Action Plan for EU-Japan Cooperation” European Union – Japan Summit Brussels2001, http://www.deljpn.ec.europa.eu/data/current/actionplan_e.pdf.

The Japan-EU Summit in December 2001 in Brussels adopted a new Action Plan for Japan-EU Cooperation entitled 'Shaping our Common Future' based on the recommendation made at the Tokyo Japan-EU Summit. After analyzing briefly the evolution since the Joint Declaration of 1991, the changes in Europe and the Asia-Pacific region, the status of enhanced Japan-EU cooperation in the age of globalization, the new Action Plan proposed four major objectives for cooperation:

- Promoting Peace and Security;
- Strengthening the Economic and Trade Partnership;
- Coping with Global and Societal Challenges, and
- Bringing together Peoples and Cultures.

Japan feels that Europe and Japan have come to share common values, common problems, and common responsibilities to tackle the agenda of the 21st century. Recent trends emphasizing political cooperation between Europe and Japan are certainly aimed in the right direction.

Emerging Norms: New Trilateralism:

The changing structures of the international system provided the background to the signing of the Hague Declaration and subsequent developments in Japan-Europe relations. In addition to the relaxing of the Cold War framework, which somewhat compelled Japan and Western Europe to follow a US agenda, the traditional substance of Japan-EC relations entered the mainstream of international political debate. In these conditions, the framework of trilateral relations between Japan, the US and Europe served to facilitate Japan's relations with Europe after 1989.

Trilateral Commission³⁴

Trilateral relations of the 1990s and the first decade of the twenty-first century differ qualitatively from those of the early 1970s, which were most notably represented by the Trilateral Commission (TC) (Gill, 1990). This earlier triangular incarnation was designed to coordinate institutionalized Western high politics and to socialize an elite stratum through conferences, discussions and mutual informal contacts (Dent, 1999:76-117). This form of trilateralism was designed to support a US anti-communist agenda, and in the so-called 'trilateral administration' of US President Jimmy Carter it became an important vehicle by which the US could 'socialize' its Cold War partners into the same view of the world (Rothacher, A.,1983:199). In addition to this Cold War orientation, specific issues dealt with by the TC, such as the Organization of Petroleum Exporting Countries (OPEC) and détente, were relevant to that particular historical juncture. The two-versus-one structure embodied in the TC ensured almost invariably that the US, at the triangle's apex, retained a dominant position over the other two, which subsequently hindered the development of their mutual relations.

New trilateralism

In some ways, the contemporary form of trilateralism which is emerging and beginning to take hold in Japan-Europe relations parallels its previous format. Most obviously, the two-versus-one arrangement can still be seen frequently. This structure therefore enabled Japan to request a codified dialogue with the EC to match that of the Transatlantic Agreement³⁵; President Clinton to pressure his European and East Asian counterparts to play greater burden-sharing roles; and Japan and Europe to come together in ASEM to strengthen the 'third side of the triangle'. In its current form, however, this

³⁴ It is a private organisation established to foster closer cooperation between US, Europe and Japan. It was founded in July 1973, at the initiative of David Rockefeller, who was the chairman of council of foreign relations at that time. The Trilateral Commission is widely seen as a counterpart to the council of foreign relations, which is an American non partisan foreign policy membership organisation founded in 1921, to formulate public opinion on foreign policy.

³⁵ "A 1990 agreement between the US and the EC to reinforce their dialogue at a number of levels".

two-versus-one format reflects a shifting set of alliances, which interchange among the three parties.

At the same time, new trilateralism is qualitatively different. Most significantly, the very nature of the three 'poles' of the triangle has altered in the light of changes in the structure of the international system. The US, whilst often referred to as the lone superpower, is, nevertheless, no longer assumed to act unilaterally as global guardian of the international order. The EU has now developed into a twenty-seven member's organization which incorporates not only economic integration through its single market programme and the introduction of the euro, but also political dialogue through a growing Common Foreign and Security Policy (CFSP) and even a security dimension, through the closer adoption of the mechanisms of the Western European Union (WEU). For its part, Japan's attempts to deepen relations with its East Asian neighbours, external pressure for it to assume regional responsibilities, and multiplying assertions in multilateral forum that Japan is acting as the East Asian representative, have all expanded the third 'pole' to include Japan as part of a broader East Asian group. In addition to the changing nature of the three poles of the triangle, the nature of issues now covered within the developing trilateral structure has changed. Moreover, with Cold War structures now largely obsolete in Europe, the rationale for Japanese and Europeans to follow US policy as a matter of course has diminished. As a result, many of the subjects now addressed on a trilateral scale would not fit with the 'high politics' agenda of the TC. Instead, issues that have historically formed the basis of Japan's and the EU's non-military dialogue have gained salience in most international organizations and multilateral forums.

Finally, trilateralism has begun to take its place among the multilevel structures which are being formulated in response to trends towards a globalized political economy. But suffice it to note here that the trilateral structure of the 1970s was explicitly bilateral-enhancing, in the sense that it reinforced US-dominated notions of capitalist versus communist ideologies. By contrast, the new trilateralism is multilateral-enhancing, in its recognition that post-Cold War problems can only be solved through cooperative

engagements undertaken by a number of different actors. From among some of the major industrialized powers of the world, Japan and Europe have assumed collectively the mantle of that trilateral responsibility.

New trilateralism, then, should be clearly distinguished from its old form. It is the trilateralism that can be found to resonate in fora as diverse as regional engagements such as the ARF, at inter-regional encounters such as ASEM, and in global entities such as the WTO and the UN. This is not, then, the 'skewed triangle', but a new triangle that impacts upon Japan's relations with Europe and the US, and which provides the 'checks and balances' for these relations (Council for Asia-Europe Cooperation, 1997:38). Whilst it is not a fully fledged norm, it can nevertheless be viewed as an emergent norm which informs relations between Japan and Europe (Dent, 1999:96).

Conclusion

Policy-making actors and other political actors from Japan and EU now encounter one another in a range of different forums, from governmental summits to business exchanges and non-governmental meetings. The political realm in which they meet now encompasses a range of issues relating to sub-national, national, regional and global agendas. What is more, the bilateral Japan-EU dialogue now also serves to underpin positions and to discuss issues debated within wider fora to which both belong. These include the UN, the G-8, the ARF and ASEM. The Japanese government has been able to pursue its growing relations with Europe for a number of ends. The development of a political dialogue with Europe (especially in the codified form of the Hague Declaration and the Action Plan) demonstrates Japan's own commitment to assuming international responsibilities commensurate with its economic power and thereby seeking to respond to criticisms such as those leveled at Japan during the 1990–91 Gulf War. In addition, growing contacts with Europe enable Japan to set a firmer footing in this region and thereby garner support on international issues of mutual concern. In so doing, Japanese policy-makers and other political actors are able to externalize further the norm

of economism, by enhancing relations with a counterpart regarded as having a similar approach to international political and economic principle.

The tensions in Japan's attempts to balance its bilateral and multilateral approaches to Europe are resolved through the application of trilateralism: for, in its new form, trilateralism both constrains and facilitates the growth of their mutual relations. On the one hand, it provides a stable framework within which these three major industrialized powers or regions of the world can address issues of contemporary concern. It ensures that the US remains central to the respective policy concerns of Japan and Europe; As a result their bilateral relationship is not presented in opposition either to bilateral relations with the US or to international obligations. On the other hand, trilateralism in the twenty-first century permits Japan and Europe to oppose the US jointly without jeopardizing their respective relations with it. Trilateralism thus enables the development of Japan-Europe, and more broadly East Asia-Europe dialogue, in the face of continuing processes of globalization. The changing structure of the international system has not only altered the very nature of the trilateral participants themselves and the issues they address, but has also begun to inform the norms and institutions upon which contemporary relations between states and non-state actors are based. The future of political dialogue between Japan and the countries of Europe may depend upon the extent to which trilateralism becomes embedded as a globally recognized norm.

Chapter-3

Japan- EU economic relationship

Japan remains the European Union's (EU) most important economic partner among the East Asian countries. The economic dimension of Japan- EU relations has been at the core of their overall relationship since it restarted in the 1950s after the end of the World War II. In particular, after the development of the European Economic Community (EEC) and the rapid economic growth of Japan from the late 1950s drew attention to both Japan and Europe as economic powers. The present chapter examines the path that Japan has taken in pursuing bilateral trade with the major European powers alongside a developing economic relationship with the EEC. It demonstrates how these developments have been driven by changes in the structure of the international system from the 1970s and particular from the 1980s, as well as by specific policy making agents. Changes brought about by the Nixon shocks of 1971 and by the oil crisis 1973 caused Japan to review its international economic relations, particularly those with United States (US).

In the early 1970s, the expanded European Community (EC) attempted not only to develop its own monetary union, but also deal with external economic affairs as a unitary actor. As a result, the European Commission began to deal with Japan on the behalf of the EC. International environment, however also led to decline in Japan- Europe relations at the end of the 1970s (Hook/Gilson/Hughes/Dobson, 2001:270). At that time, the oil crisis 1979, combined with economic stagnation in the EC, began to slow down attempts to deal with Japan in the economic aspects. It was only in the 1980s that strong yen and a revitalised EC encouraged Japan and the EC once again to pay attention to one another's economic progress. Since that time their economic relations have been constantly refined and reinforced. Since the 1990s, the development of Single European Market (SEM), the introduction of a Single European Currency and EU enlargement has all intensified this trend.

Normalisation of Japan -EU economic relations

From the middle of the 1950s onwards economic matters have been the central issue in the relations between Japan and the EU. In particular Japan placed high policy

priority in resolving the question of whether and when membership to major international economic institutions such as GATT³⁶ would be granted. Japan's first application for membership to GATT in 1952 was opposed by the United Kingdom (UK). It was in 1955 that Japan was accepted as a member of GATT, with the strong support from the US. However fourteen countries, including UK and the Netherlands did not agree to grant Japan as a most Favoured Nations Status (MFN³⁷) (Kazuhiko, 2005:260). These countries, urged by their textile industries, which feared fierce Japanese competition, refused to abolish discriminatory measures against Japan. More generally, the European's feared that Japanese goods, produced by workers prepared to accept lower salaries and longer working hours, would be dumped on their market. Antipathy from war time experience continued to persist as well (Kazuhiko, 2005:263).

After tough negotiations the treaty of commerce and navigation between Japan and the UK was concluded in 1962 and finally Japan was granted Most Favoured Nation status. But the UK reserved the right to a "safeguard clause", which allowed her to introduced selective measures of import restriction in case of future emergencies.

In 1973 Japan concluded treaties of commerce with France and the Benelux³⁸ countries, where the most favoured nation status was given, but the "safeguard clause" was equally preserved (Takashi, Jain 2000:194-196).

It is a well remembered episode in Japan that, when Prime Minister Ikeda visited Europe in 1962 and met with the French president Charles de Gaulle, the president later described him as a 'transistor radio sales man'. Humiliating as it may sound this episode

³⁶ General Agreement on Tariffs and Trade (GATT) was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was formed in 1947 and lasted until 1994, when it was replaced by the World Trade Organization.

³⁷ **Most favoured nation** (MFN) is a status awarded by one nation to another in international trade. It means that the receiving nation will be granted all trade advantages — such as low tariffs — that any other nation also receives. In effect, a nation with MFN status will not be treated worse than any other nation with MFN status. The members of the World Trade Organisation (WTO), which include all developed nations, must accord MFN status to each other. Exceptions allow for preferential treatment of developing countries, regional free trade areas and customs union. Together with the principle of national treatment, MFN is one of the cornerstones of WTO trade law.

³⁸ A group of three countries namely '*Belgium, Netherlands and Luxemburg*'.

perhaps reflected Japan's efforts in these post war years, seeking international recognition through success in economic development.

In the 1960s Japan's economic expansion was increasingly felt in Europe. Japan's Gross National Product(GNP) over took that of one country after another, including Germany's in 1969, and from 1968 on Japan has had a trade surplus with the EC, creating a series of unending trade conflicts that have varied in intensity. In contrast to EC figures, Japanese figure were lower because they are based on FOB (Free on Board) export on CIT (Cost, Insurance and Transit) imports. In the early 1960s, Japan's exports to Europe consisted mainly of ships and textiles, followed later by ball bearings, steel, electronics and automobiles (Takashi, Jain: 2000:195). Europe's response has been voluntary self restraint agreements (e.g. in the trade of automobiles, color televisions, and some machine tools) and antidumping procedures. With Japan's surplus rising and Japan's growing competitiveness offsetting any European countermeasures, lack of accessibility to the Japanese market became an increasingly heated subject, mirroring in many ways Japanese American trade conflict. But already a Japanese observer had aptly described the difference of the two trade conflicts by stating that Japan's economic disputes with the EC "remain on like the prolonged drizzle that characterised Japan' rainy season," whereas disputes with the United States are suggestive of a show down between pistol-drawing cowboys (Shinichi Hakoshima, 1979:481).

Japan's Trade deficit with Europe during 1969-1975:

The year 1969 became an important dividing point in Japan's economic relations with Europe, just as this year became an important landmark in Japan- US relations. For the first time in trade history Japan and the EC trade deficits appeared on the European side.³⁹ In Europe the emergence of trade deficits with Japan had a gloomy psychological impact. Japan's exports began to be concentrated in such industries as radio, television, electronics, ships, and automobiles. In each sector feared emerged for future European production. The creation of European Economic Community (EEC) in 1958 developed in

³⁹ *Japanese exports totaled \$968 million; EC exports totaled \$821 million (JETRO Statistics www.jetro.go.jp/ec/j/trade/excel/40w02.xls 2003-07-19).*

to the EC in 1967. It introduced structural changes in Europe that shifted some power for trade negotiations to the European commission in Brussels. In 1974 the representative office of the EC opened in Tokyo. By 1973 EC trade deficit vis-à-vis Japan reached \$ 1 billion.⁴⁰

Japan Trade deficit with Europe during 1976-1980

Increasing trade deficits and large scale exports from Japan heightened deep frustrations in Europe. In October 1976, a large scale delegation of Japanese businessman headed by Toshimitsu Doko president of keidanren⁴¹ visited Europe. European interlocutors from various EU countries, the European Community, and business sectors, all subjected this delegation to close inspection. The president of European Commission, Mr. François-Xavier Ortoli, warned with an unprecedented harshness that “the EC countries were extremely annoyed by Japanese export offensive and the substantial increase of trade deficits. All level of industries and trade unions requested the introduction of restrictive measures against Japanese exports. If current trade deficits were to continue between Japan and Europe, Japan would face grave consequences.”

In 1976 Japan’s exports to the EC were approximately double its imports from the EC, resulting in a trade deficit of \$3.6 billion.⁴² On a sectoral basis Japanese exports, referred to as ‘torrential rain’, moved from fear to reality in automobiles, electronics, ball bearings, steel and shipbuilding. The impression that the Japanese market was closed to European exporters exacerbated the tension.

The Japanese government and industries were shocked by the results of the Doko Mission in Europe (Takashi, Jain, 2000:197). The Japanese government took a series of measures: in November 1976 at the High Level Officials Group between Japan and the EC, Japan proposed three principles, first consisting of free trade, second dialogue with

⁴⁰ JETRO figures (<http://www.jetro.go.jp/ec/j/trade/excel/40w02.xls> 2003–07–19).

⁴¹ This is a business association in which major Japanese companies and trade firms participate called *Keiza* (Economic) *Dantai* (corporation) *Rengoukai* (association), abbreviated as *Keidanren* or *Nippon Keidanren*.

⁴² JETRO figures (<http://www.jetro.go.jp/ec/j/trade/excel/40w02.xls> 2003–07–19).

the EC, and final consideration of third party interests. In May 1977 a Japan-EC Ministerial Meeting was held in Tokyo and in-depth discussions on trade imbalances were conducted. In March 1978 an EC-Japan joint communiqué was issued to underline Japanese efforts to decrease its trade surplus *vis-à-vis* Europe. In 1979 the Japanese government opened a Representative Office in Brussels (kazuhiko, 2005:266).

The private sector joined this process as well. Japan-UK automobile sectors reached a Voluntary Export Restraint (VER) agreement to keep the Japanese market share in the UK at 11percent. A similar agreement was reached in Japan-UK electronics industries. VER was a subject of discussion between Japan and many EC countries on a variety of topics and at various levels.⁴³ These concerted efforts by the Japanese government and companies to solve problems with European industries succeeded in alleviating tension from trade disputes by the end of the 1970's.

Trade dispute between Japan and EU during 1980 and early 1990s

Despite the efforts made by Japan the actual amount of the trade deficit, however, did not decline significantly. As in 1981 the EC deficit amounted to \$10 billion.⁴⁴ Japan continued to expand its exports in Europe in such key industries as automobiles, colour televisions and high-tech products (VTRs, computers, semi-conductors). European discontent continued. The lull experienced in trade tensions at the end of the 1970's was short lived.

In the automobile sector, by 1981 France had introduced import restrictions to limit Japan's share to below 3 percent of newly-registered cars; Italy had placed a ceiling on annual imports from Japan of 3,300; and the UK had private sector VER (Voluntary Export Restraints) agreements in operation. The European Commission wanted to expand these restrictive measures to include other major EC countries. Thus in 1981, Japan agreed to take VER measures with Germany to limit the yearly rate of increase in

⁴³ JETRO figures (<http://www.jetro.go.jp/ec/j/trade/excel/40w02.xls> 2003-07-19).

⁴⁴ *ibid*

Japanese exports to under 10 percent; with the Netherlands to keep the exports at the same level as the previous year and with Belgium and Luxemburg to limit the amount of exports to 7 percent lower than the previous year. As for colour televisions and VTRs, Japan agreed in 1983 to give an 'Export Forecast' for the next three years. That was another way of stating that Japan was prepared to implement VER measures to keep its exports below the level of that forecast (Kazuhiko 2005:266).

Despite these efforts during the first half of the 1980's trade deficits reached \$20 billion in 1987. They continued to increase steadily and reached a historic record high of \$31 billion in 1992.⁴⁵ But this time the reaction on the part of Europe was different. On the one hand, it was a time of historic integration for Europe. In June 1985 a White Paper from the Commission to the European Council, entitled 'Completing the Internal Market' was adopted. The agenda for European integration was clearly outlined: "to create an area for free movement of goods, services, capital and persons, a common market" (Kazuhiko, 2005:267). In February 1986 a Single European Act was adopted to formalise that agenda. The Treaty of Maastricht creating the EU was agreed upon in December 1991, signed in 1992 and entered into force in 1993. European confidence grew stronger. On the other hand, just as in the case of Japan-America trade conflicts in this period, Europe tried to overcome trade conflicts with Japan in an 'expansionist' manner, that is to say, rather than restricting Japanese exports to Europe. Europe began to take concrete measures to increase Japanese investment in Europe and expand its exports to Japan. First, Japanese investment in Europe helped to create more jobs and give greater incentives to European production. During the latter half of the 1980's, on a yearly basis, Japanese investment in the EC increased. From only \$600 million in 1970 it reached over \$1 billion in 1984 and \$14 billion in 1989.⁴⁶ The investments included a wide range of production and services, including electronics, electric equipment and automobiles. UK led in receiving Japanese Investment, followed by the Netherlands. Second, from 1990 onwards a three year

⁴⁵ *The EC trade deficit with Japan from 1987 to 1992 in billion dollars is 20.0, 22.8, 19.7, 18.4, 27.3, 31.1 (from JETRO figures: <http://www.jetro.go.jp/ec/j/trade/= excel/40w02.xls> 2003-07-19).*

⁴⁶ *Japan's yearly direct investment in the EC from 1984 to 1992 in billion dollars was 1.4, 1.5, 3.0, 6.3, 8.3, 14.0, 13.3, 8.8, and 6.6 (JETRO figures, 1990-1992 www.jetro.go.jp/ec/j/trade/ FDI to, country data 2003-08-04).*

programme to enhance EC exports to Japan was implemented. European governments, together with their private sectors, also made efforts to enlarge business opportunities in Japan. European efforts did not bear immediate fruit during the first half of the 1990's, but began to have an impact on the trade situation from the latter part of the 1990's.

New beginning of Japan-EU Economic relations

“Japan-EC/EU joint declaration of 1991” this declaration covers both economic as well as political relationship between Japan and the EU , it marked a turning point in the relations from economic conflicts to political cooperation. In the economic relationship, this declaration included an important principle to govern trade, investment and economic relations. The two parties announced in the declaration that:

“They will Endeavour to strengthen their cooperation in a fair and harmonious way in all areas of their relations taken as a whole, in particular with respect to the following (inter alia):

*- Pursuing their resolve for equitable access to their respective markets and removing obstacles, whether structural or other, impeding the expansion of trade and investment, on the basis of comparable opportunities”.*⁴⁷

The central point in preparing the draft of this Declaration was the nature of access and opportunities. The EC tried to ensure that the access or opportunities should be ‘equal’ or ‘the same’ in Europe and in Japan. Japan, while maintaining the principle of free trade, emphasised that inherent differences between the two markets had to be reflected in the nature of access and opportunities. After discussing numerous options the two sides agreed on the notion of equitable access and comparable opportunities. The language found was an adequate way of balancing the differences in approach and the need to expand trade and investment relations, between Japan and Europe.

⁴⁷ All quotations from the Joint Declaration, (<http://www.mofa.go.jp/region/europe/eu/overview/declar.html> 2003-07-20)

While the Joint Declaration in 1991 had already signaled the transition from economic conflicts to a wide range of cooperation between Japan and Europe, economic issues still weighed heavily in the first half of the 1990's in Japan-Europe relations.

After three years of an export expansion programme for 1990–92, the EU initiated another three year programme for 1994–96 called 'Gateway to Japan'. Information and financial assistance were given to European companies wishing to penetrate the Japanese market. Many European countries launched special programme, such as 'Le Japon c'est possible' by France for 1992–1997, 'Action-Japan Campaign' by the UK for 1994–1997, 'Three times Japan' by Germany from 1994, etc. All these programmes were designed to encourage European exports and investment in Japan and in some cases helped Japanese investment in Europe. As a result of these efforts Japan's investment in the EU continued to grow, reaching \$25 billion in 1999 and \$23 billion in 2000. EC/EU investment in Japan was not of the same magnitude, but began to grow in strength as well. In 1990 it reached \$1 billion and stayed at that level until 1996, but from 1997 it showed substantial momentum on a yearly basis: \$12 billion in 1999 and \$8 billion in 2001.⁴⁸

As for the EU trade deficits *vis-à-vis* Japan, they began to decline gradually from \$31 billion in 1992 and bottomed out with \$13 billion in 1996. They began to increase again and exceeded \$30 billion in 1998, 1999 and 2000, after which they dropped to below \$20 billion.⁴⁹ Significantly, similar to the situation in America, three consecutive years of trade deficit over \$30 billion, which had been cause for alarm in 1992, did not cause any political sensation. Strengthened economic power and confidence in Europe and economic stagnation in a deflationary Japan was a party responsible for this change. During the second half of the 1990's the economic relationship remained on the agenda, but with a greater sense of cooperation than confrontation. For instance, Japan and

⁴⁸ JETRO figures, www.jetro.go.jp/ec/j/trade/FDI to and from, country data 2003–08–04.

⁴⁹ JETRO figures, www.jetro.go.jp/ec/j/trade/FDI to and from, country data 2003–08–04.

Europe shared common interests in agriculture in the WTO. Another case of economic cooperation was the Regulatory Reform Dialogue between Japan and the EU.

Japan-EU Foreign Direct Investment Relations (FDI)

Promoting investment flows between two economies is increasingly at the forefront of the Japan-EU relationship. More investment is of mutual interest. The EU would benefit from a modern, open Japanese economy with which European companies can trade smoothly and where they can easily establish branches or subsidiaries to develop their business activities. For Japan, Foreign Direct Investment (FDI) plays a crucial role in boosting its economy.

Japan-EU Investment Relations

Japan-EU investment relations have been steady. The average EU FDI outflow to Japan in 2002-2005 was 8.3 euro billion, with an average growth of 3.1 percent over that period. In the past two years inward FDI flow from the EU to Japan has been increasing steadily. Japan is ranked as the fourth largest investor into the EU, with a euro 4.9 billion FDI inflow in 2005. Japan ranked second in 2005 for outward FDI flows from the EU.⁵⁰

The EU has been the largest investor in Japan for many years, in terms of inward FDI flows. Although Japan-EU investment relations are in relatively good shape, Japan's general inward FDI figures show a more worrying trend. The EU's inward FDI stock into Japan has been increasing steadily in recent years, with 40 percent of inward FDI stock into Japan coming from the EU in 2004. Although Japan's inward FDI stock has increased steadily during the last seven years, Japan's inward FDI flow, both from the rest of the world and from Europe, has been declining recently.⁵¹

Japan's inward FDI flow in 2005 was 0.3 percent of gross fixed capital formation, compared to 16.1 percent for the EU and 4.0 percent for the U.S.A. Also, Japan's inward

⁵⁰ http://www.deljpn.ec.europa.eu/relation/showpage_en_relations.investment.php

⁵¹ *ibid*

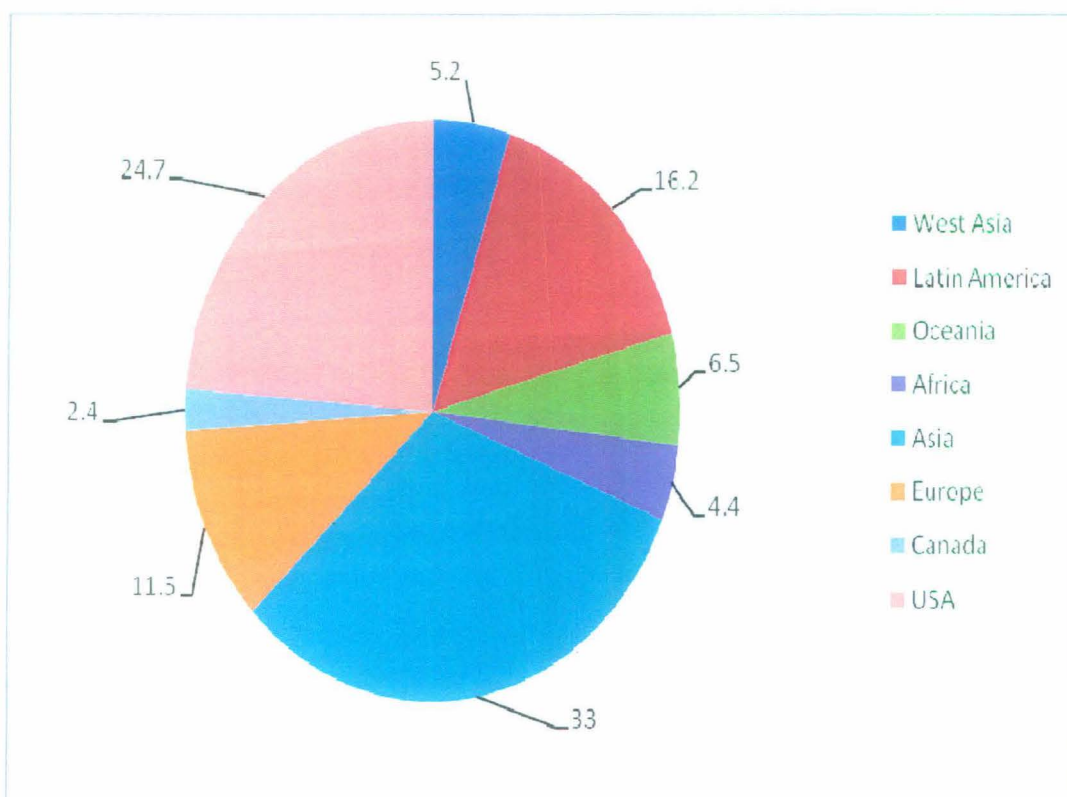
FDI stock is low, and below potential, at 2.2 percent of GDP, at the end of 2005, which compares unfavorably, with 33.5 percent for the EU and 13.0 percent for the U.S.A.⁵²

Japanese investment in Europe has not just been a post-war phenomenon. In a historical analysis on the subject, some scholars like Mason (1992) notes that during the pre-war period Japanese FDI in the West was primarily based on trade-supporting or technology-acquiring motivations. This was the trend in the early post-war years, although investment levels were very low until the 1970s. From 1951 to 1965, cumulative Japanese FDI in Europe stood at a mere \$25 million, representing only 2.6 percent of total overseas investments made by Japanese firms (Dent, 1999). However, by 1971 both figures had risen sharply to \$988 million and 16.3 percent. Much of Japanese investment at this time was trade-supporting in nature with the trading organisation expanding their commercial distribution networks within Europe, while the newly arrived finance, banking and insurance companies of various *keiretsu* groups also helped facilitate Japan-based exporting activities.

According to Darby (1997) argued that the initial growth of Japanese manufacturing investments in Europe can be linked to Japan's environmental crisis of the late 1960s and early 1970s. This particularly applied to chemical related industries and the negative externalities generated by Ozawa's (1991) 'Phase 2' restructuring (scale-based modernisation of heavy and chemical industries) that led to the transplantation of certain activities to Europe and elsewhere. The extent to which this argument can be applied to all Japanese manufacturing investments in Europe during this period is debatable. Moreover, most Japanese FDI in Europe was concentrated in service sector industries, a trend which has persisted with these industries accounting for just over two thirds of the total (Dent, 1999:83)

⁵² *ibid*

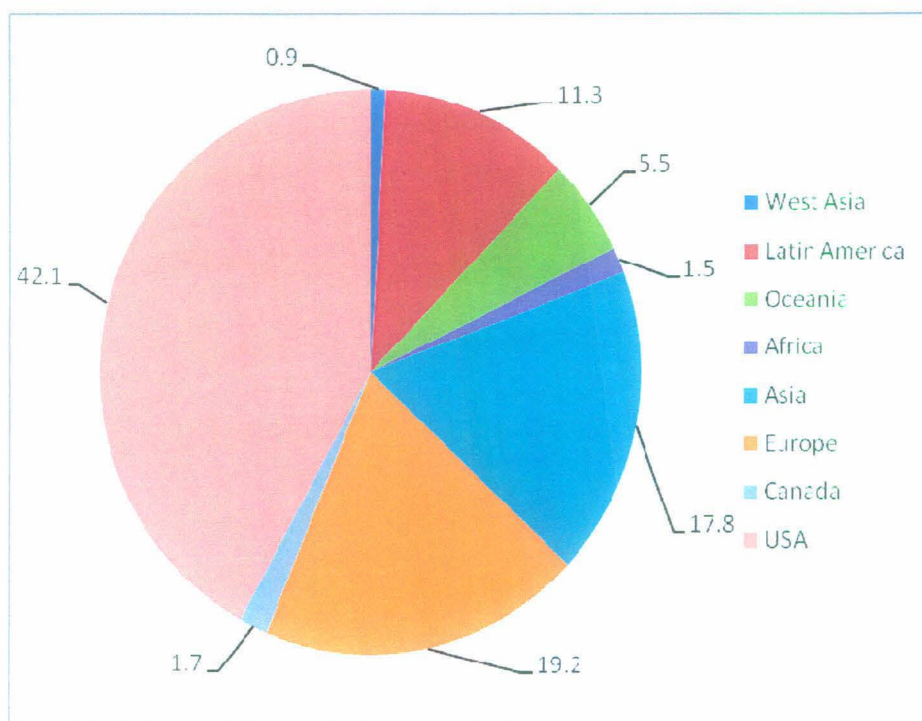
Figure 3.1: Stock of outward FDI from Japan by geographic destination (1981)



Source: Japan External Trade Organisation (JETRO)

While Japanese FDI in Europe continued to rise during the 1970s, standing at a cumulative \$3.9 billion by the end of the decade. By the mid-1980s, though, Europe had once more become the focus of Japanese investment interests. In 1981 cumulative Japanese FDI in Europe was \$5.3 billion and 11.6 per cent of the total (as figure-1.1 is showing) and by 1985 had more than doubled to \$11.0 billion with the annual flow of investment at \$1.9 billion for that year.

Figure -3.2: Stock of outward FDI from Japan by geographic destination (1996)



Source: Japan External Trade Organisation (JETRO)

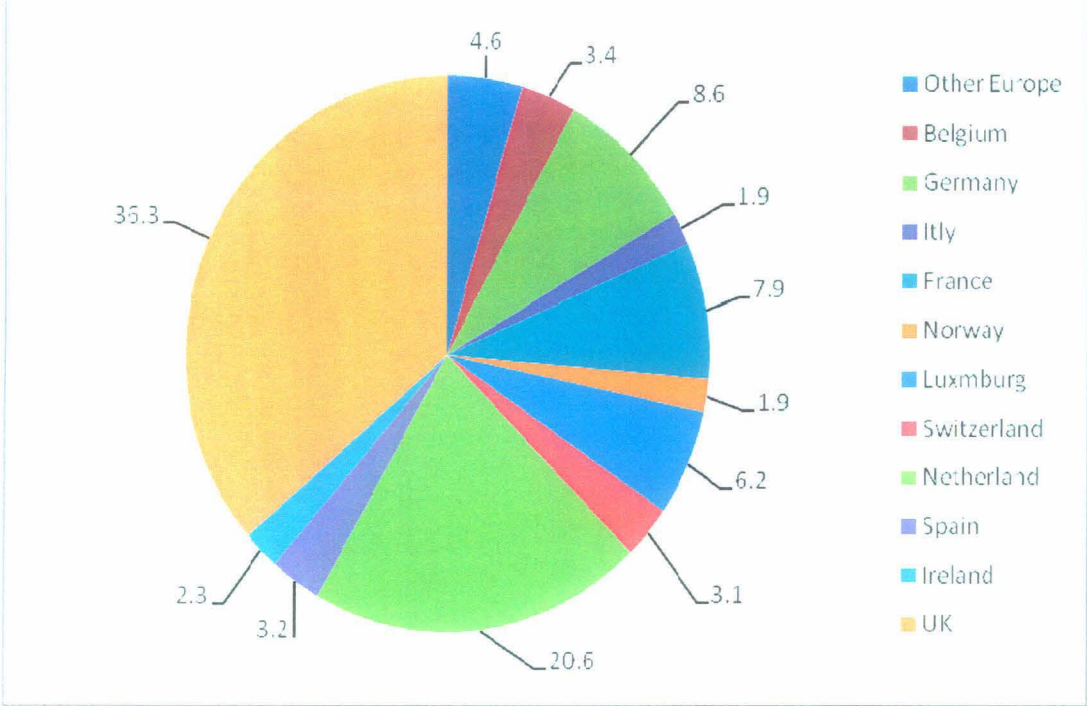
The rise of Japanese FDI in Europe during the latter part of the 1980s became the subject of much academic debate. Although the some research undertaken by Belderbos (1997) suggested that Japanese FDI in both the EU and USA remained significantly motivated by Anti Dumping Duty (ADD) circumvention in particular, Nicolaidis and Thomsen (1991) argued that proactive factors were more relevant. Thomsen (1993) proposed that by the 1990s Japanese FDI in the EU was primarily motivated by the need to:

- defend market shares threatened by intensified global competition;
- release resources back home in order to develop and market new products;
- draw closer to larger markets within a coagulating SEM.

Thomsen went on to state that technological rivalry between major Japanese assemblers created a perpetual need to develop new products for the home market, with

the result of outdated product technologies being quickly transferred to overseas production plan. As the 1990s progressed, JETRO annual surveys and other studies consistently testified to globalization is the prime determinant factor behind the Japanese FDI in Europe. According to Yamawaki (1993), location specific advantage has played keen role in the decision making process of Japanese investment in Europe. In his empirical analysis, he concluded the host country's provision relatively low labour, costs, a substantial research and development (R&D) capability and a large domestic market were the most effective combination of factors in attracting inwards Japanese FDI. The UK has perhaps shown that it possesses the best combination of this advantage and has maintained its position as the major host nation with 38.3 percent of post war cumulative share in 1996 (see figure 1.2). This position is now reinforced by certain agglomeration effects enjoy by investing Japanese companies in UK, such as an established and large Japanese business community and the networks links.

Figure 3.3: Stock of Japanese in Europe by Host Country destination (1996)



Source: Japan External Trade Organisation (JETRO)

The above analysis of Japanese FDI in the EU has focus on international production theories. They noted that, the expansion of the Japan-EU FDI relationship had deep effects on their economic relations in general. By ensconcing themselves within Europe, Japanese firms were able to develop alliance relationship with EU states and non state actors that to some extent altered the matrix of loyalties in Japan-EU economic diplomacy to Japan's general advantage.

UK has become Japan's favoured destination for investment (44 percent of all Japanese investment in to the EU on a cumulative basis, followed by Netherlands with 21 percent) although trade with Germany is higher. Japan is the largest investor in UK, the US being by far the leading investor followed by Germany. With the total of 274 cases (in 1998) out of 1000 Japanese companies in the country, Britain is the preferred location for the Japanese direct investment in Europe in the manufacturing sector, followed by France and Germany. The investment in Britain alone has created 65,000 direct new jobs. In fiscal year 1996-1997 Britain attracted 387.3 billion yen of Japanese investment, more than three times as the Netherlands, which comes second.⁵³ But in 2005 there were 1008 Japanese companies are operating in Europe. In which 818 are operating in Western Europe, 174 Japanese companies are operating Central and Eastern Europe, and 16 are working in Turkey.⁵⁴

The EU member countries now urge Japanese business to supplement their manufacturing capacity with research and development facilities, 150 Japanese companies in the UK have such facilities. However flow of Japanese investment into Europe has dropped off in the 1990s as it has gained pace in the direction of Asia. In 1988, around 38 percent of the foreign subsidiaries and affiliates of Japanese companies were based in Asia, compared to 29 percent in North America and 18 percent in Europe.

⁵³ *Towards global partnership: NICE position on EU-Japan economic and trade relations* published by the union of industrial and employers' confederation of Europe, Brussels 7 October 1998 pp-16.

⁵⁴ Manufacturers: JETRO, as of the end of December 2005; www.jetro.go.jp.

By 1997, the percentages were 60 percent, 20 percent, and 13 percent respectively (Takashi, Jain 2000:201).

The other side of this investment picture is, however, characterised by the considerable imbalance of EU investment in Japan of around 8 to 1, attributable to high costs in Japan (labour, real estate, and general price level), European preference for wholly owned subsidiaries, and market access restrictions in Japan driving from structural and policy conditions. European investment is approximately 10 percent of Japanese FDI in the EU. The EU has even been disinvesting from Japan, in the period 1992-1995 by an average 300 million European Currency Unit (ECU) annually.⁵⁵ According to EU statistics, total EU direct investment outside the EU stood at ECU 471.91 billion, of which ECU207.18 billion was in the U.S. and only ECU11.05 billion was in Japan, most in the manufacturing sector, services, and petroleum (including chemicals, rubber, plastic products). In 1996, EU investment in Japan increased by 72.8 percent over the previous year to 220.2 billion yen, amounting to a slight increase of the number of individual investors from 330 in 1995 to 353 in 1996. By investment volume, Dutch companies lead European investment in Japan, followed German and British companies.

In actual value, the figures are equally striking. The EU's FDI stock in Japan is around euro 75 billion out of the EU's total FDI of almost 3 euro trillion a mere 2.8 percent. Public procurement tenders awarded to foreign companies account for less than 2 percent of the total number of tenders.⁵⁶

The trend in flows of FDI has been quite dynamic over the past five years, with a substantial increase of two way investment flows in the period 1999-2000 and a moderate decrease in following years. Japan is major investor in the EU. In 2003, 4.1 percent of EU inflows came from Japan. At the end of 2003, 5.03 percent of the stock of EU inward FDI came from Japan, while 0.6 percent of the EU outflow went to Japan. Over the past five years, the EU has become an important investor in Japan. At the end of 2003, 1.82

⁵⁵ Eurostat, economy and finance 1997, pp-9

⁵⁶ *ibid*

percent of the stock of EU outward FDI was in Japan, with a negative inflow (-0.58 percent) in 2003. Japan's inward FDI has soared since the mid 1990s.

Table 3.1: Japanese FDI in EU (1000 Million Yen)

1993		1996		1997	
		cases	amount	cases	amount
EU Total	8,303	219	8,053	225	13,452
U.K.	2,946	77	3,873	84	5,054
Holland	2,488	36	1,238	40	4,043
Germany	884	30	643	90	898

Source: Ministry of Finance, Japan

Table 3.2: EU FDI in Japan (Yen Billion)

Source	1993	1994	1995	1996	1997	1998	1999
France	9	7	11	11	9	17	746
Netherlands	33	54	54	80	146	128	471
USA	109	164	177	239	152	808	249
UK	8	13	11	41	45	37	90
Germany	12	54	17	48	52	34	47

Source: facts and figures of Japan 2001, foreign press center, pp-78

Trade between Japan and EU (1993-2000)

There are enormous trade opportunities for European business in Japan as well as Japanese business in Europe. Some trade problems still exist in Japan and EU trade relations, many large Japanese companies have established monitoring offices in Brussels. These offices keep track of the latest developments in EC laws and regulations. Following completion of the single market in 1992, however, and the subsequent recession in the EC economies, attention by Japanese companies to this part of the world decline. Signs of European recovery from the second half of 1996 did combine with favorable overseas demand, stable prices and exchange rates, and falling interest rates to encourage renewed investment in the continent. In addition, growth in Japanese imports due to economic recovery in the EU relieved some of the previous trade tensions as the bilateral deficit was reduced. However, it was not until the late 1990s that repeated 'overturns' began to be made by Japanese businesses for action to be taken in Europe to stabilise external trade. Moves towards the launch of the single currency encouraged Japanese companies to shift to full manufacturing in Europe rather than just assembly plants; to adopt a greater use of EU sourced components; and to commence moves towards a larger research and development base within the EU. At the same time, changes within Japan also affected economic relations, in particular because Japan's 'big bang' deregulation of its financial industry, and new World Trade Organisation (WTO) negotiations on financial services which ended in December 1997, led to a spate of mergers and acquisitions. In Brussels in May 1998, it was confirmed that eleven of the fifteen EU member states were eligible and ready to adopt the euro from 1 January 1999. When the euro was launched, Foreign Minister Komura Masahiko of Japan recognised the significant economic and political potential of its existence could exert on Japan. He joined Finance Minister Miyazawa Kiichi in stressing the desire for a trilateral economic structure based upon the three strong currencies of the US dollar, the euro and the yen, a premise which resonated in Japan's promotion of the New Miyazawa Initiative in 1999. This period also witnessed other forms of agreement in the economic dimension, such as the Japanese government's response at the G-8 1999 summit to the new EU-Japan Mutual Recognition Agreement (MRA). This agreement was established to promote trade

between Japan and the EU by their mutually recognising conformity assessment in several specific sectors. Indeed, this was regarded as the first major international agreement between Japan and the EU, and heralded important recognition for the EU as a serious economic partner with a range of new and efficient networks for the Japanese to work with (Sazanami and Kawai 1999:45). The response by domestic policy-making agents and other actors to these structural changes has shaped much of Japan's contemporary economic agenda on Europe.

The more cooperative atmosphere between Japan and the EU has allowed the problems of trade and investment imbalances to be dealt with through monitoring and dialogue. In order to come to an agreement on trade imbalances, the so called Trade Assessment Mechanism (TAM) was set up in 1993 (Takashi, Jain 2000:200). It is a statistical mechanism between the European commission and the government of Japan for comparing the EU's performance in Japan to its performance in other comparable markets with a symmetrical exercise being conducted for Japanese exports.

After hitting a trade surplus record with the EU of \$ 31.2 billion in 1992, the surplus declined in both 1993 and 1994. In terms of products, machinery accounted for about 70% of Japanese export to the EU. In 1997, Japanese exports shot up to ECU 59 billion, an increase over the previous year, while imports from the EU increased merely by 1.1 percent to ECU 36 billion (Takashi, Jain 2000:200). (As 1.3 table show)

Table 3.3 Trade between Japan and the EU (unit: million yen)

Year	Exports	% change	imports	% change
1993	52178	-7.3	24661	11.1
1994	53751	3.0	29082	17.9
1995	54284	1.0	32889	13.1
1996	52507	-3.3	35666	8.4
1997	59367	13.1	36049	1.1

Source: Eurostat

In 1996, according to the EU trade statistics, Japan was third largest trading partner of the EU after the US and Switzerland, accounting for 7.3 percent of the total value of extra-EU trade⁵⁷. The trade is based on manufacturing goods, which in 1996 represented 98 percent of all imports from Japan and almost 86 percent of all EU exports to Japan. Machinery and transport equipment accounted for the major part with 74 percent of EU imports from Japan and 40 percent of EU exports to Japan. The EU trade deficit with Japan in 1996 resulted from the negative balance of trade in machinery and transport equipment. The EU achieved the greatest trade surplus with Japan in articles of clothes, medical and pharmaceutical products and beverages. Germany and the UK accounted for most of EU trade with Japan, with 30 percent and 18 percent respectively. The largest trade deficit was, in order of declining magnitude, with the UK, the Netherlands, and Germany. Italy, Denmark and Sweden achieved trade surplus.⁵⁸

Japan's economic crisis and the fall in the yen or dollar exchange rate have significantly changed Japan's overall trade surplus and particularly the one with the EU. In 1997, Japanese total exports rose 2.5 percent year on year to \$422.9 billion, while imports dropped 2.9 percent to \$340.4 billion.⁵⁹ In fiscal year 1997-1998, Japanese total trade surplus expanded by 80 percent to yen 11.4 trillion. Because exports rose while imports fell, Japanese trade surplus, which had contracted for two straight years, expanded by 33.5 percent to \$82.5 billion. While Japanese exports to Asia dropped for the second straight year, Japanese exports to the EU increased dramatically due to the weak yen.

EU exports to Japan fell by 11 percent in the first quarter of 1998, whereas imports from Japan grew by 20 percent. Japanese automobile exports to the EU increased by 35 percent, television sets and video recorders by 28 percent, and metals and metal

⁵⁷ Eurostat August 1997,

⁵⁸ *ibid*

⁵⁹ Annual white paper on international trade, Tokyo, 12 August 1998.

products by 38 percent. Japanese imports of European automobiles, on the other hand decreased by 17 percent.⁶⁰

Trade between Japan and EU (2000-2007):

During 2000 and 2006, EU exports of goods to Japan fell slightly in value, from 45.5 billion euro to 44.7 billion, while EU imports from Japan decreased by 17 percentage, from 92.1 billion to 76.8 billion. As result the EU deficit in trade with Japan declined from 46.6 billion in 2000 to 32.1 billion in 2006. The share of Japan in the EU's total external trade in goods has fallen between 2000 and 2006. In 2006, Japan accounted for 4 percentages of EU's exports and 6 percentages of EU imports, and was the EU's fifth largest trading partner.⁶¹

One third of EU exports to Japan in 2006 were machinery and vehicles and 30 percent were other manufactured articles, while machinery and vehicles accounted for three quarters of imports. The main EU exports to Japan were motor cars, medicine and pork while the main imports were motor cars and parts, computer parts and digital cameras⁶².

Among the EU Member States, Germany was by far the largest exporter to Japan in 2006, with euro13.6 billion, or 31percent of the total, followed by the United Kingdom (5.9 billion or 13 percent), France (5.7 billion or 13 percent) and Italy (4.5 billion or 10 percent). Germany (17.3 billion or 23percent) was also the largest importer, followed by the United Kingdom (12.3 billion or 16 percent) and the Netherlands-(10.2 billion or 13percent)⁶³.

Most Member States of EU recorded trade deficits with Japan in 2006. The largest were observed in the Netherlands (7.9 billion), the UK (6.4 billion), Belgium (4.3

⁶⁰ "Towards global partnership: UNICE position on EU-Japan economic and trade relations" published by the union of industrial and employers' confederation of Europe, Brussels 7 October 1997, pp16.

⁶¹ Rapid press releases- EUROPA 31 may 2007.

⁶² Ibid.

⁶³ Ibid.

billion), Germany (3.7 billion) and Spain (3.4 billion). The only significant surpluses were registered in Ireland (1.0 billion) and Denmark (0.9 billion)⁶⁴

Table 3.4 EU trade in goods with Japan (million euros)

	Exports	Imports	Balance
2000	45 497	92 091	-46 594
2001	45 521	81 134	-35 613
2002	43 456	73 651	-30 196
2003	40 975	72 391	-31 416
2004	43 392	74 709	-31 317
2005	43 708	74 063	-30 355
2006	44 711	76 782	-32 071

Sources: rapid press releases EUROPA, 31may 2007.

⁶⁴ Ibid.

Table 3.5 Trades between Japan and the EU Member states

	Exports		Imports		Balance	
	2000	2006	2000	2006	2000	2006
EU27	45 497	44 711	92 091	76 782	-46 594	-32 071
Belgium	2 420	2 526	5 949	6 850	-3 529	-4 325
Bulgaria	19	13	68	247	-49	-234
Czech Republic	126	325	668	1 467	-542	-1 142
Denmark	1 941	1 487	721	634	1 219	853
Germany	13 195	13 645	23 543	17 337	-10 348	-3 692
Estonia	7	44	279	115	-273	-71
Ireland	3 190	2 034	2 184	1 058	1 006	975
Greece	93	59	1 277	1 287	-1 183	-1 228
Spain	1 215	1 294	3 843	4 686	-2 628	-3 392
France	5 475	5 686	8 477	6 235	-3 003	-548
Italy	4 338	4 483	6 421	5 452	-2 083	-969
Cyprus	1	13	173	137	-173	-125
Latvia	9	34	5	26	4	8
Lithuania	13	13	101	49	-88	-37
Luxembourg	60	27	194	153	-135	-126
Hungary	174	307	1 852	1 616	-1 677	-1 308
Malta	101	105	73	70	28	34
Netherlands	2 388	2 252	11 243	10 169	-8 855	-7 917

Austria	956	1 217	1 202	1 127	-246	91
Poland	67	152	1 139	939	-1 071	-787
Portugal	119	109	1 061	550	-941	-441
Romania	17	82	186	526	-169	-444
Slovenia	13	22	181	73	-167	-51
Slovakia	13	88	233	441	-219	-352
Finland	862	1 012	1 387	985	-525	27
Sweden	2 640	1 783	2 738	2 229	-98	-446
United Kingdom	6 044	5 899	16 892	12 324	-10 848	-6 426
Total Extra-EU27	849 739	1 156 102	992 698	1 348 836	-142 959	-192 734
Japan / Total	5.4%	3.9%	9.3%	5.7%		

Sources: rapid press releases EUROPA, 31may 2007.

Table1:5 trade between Japan and EU by products (million euro)

	Exports		Imports		Balance	
	2000	2006	2000	2006	2000	2006
Total	45 497	44 711	92 091	76 782	-46 594	-32 071
Primary products:						
Food & drink	4 033	3 665	118	116	3 915	3 549
Crude materials	1 521	1 670	490	544	1 031	1 126
Energy	78	124	50	396	28	-272
Manufactured goods	38 438	37 720	90 592	75 064	-52 153	-37 344
Chemicals	8 251	9 151	5 504	6 168	2 747	2 982
Machinery and vehicles	17 782	15 328	70 095	56 998	-52 313	-41 670
Other manufactured articles	12 405	13 242	14 992	11 897	-2 587	1 344
Other	1 426	1 532	841	662	585	870

Sources: rapid press releases EUROPA, 31may 2007

During 2006, the EU exported euro 20.7 billion of services to Japan, while imports of services from Japan amounted to 12.6 billion, this means that the EU had a surplus of 8.1 billion in trade in services with Japan. This surplus was mainly due to financial

services (2.4 billion), as well as travel (2.1 billion), transportation (1.2 billion) and other business services (euro 1.0 billion). Japan accounted for 4 percent of total extra-EU trade in services.⁶⁵

Institutionalisation of Japan-EU economic relations

As early as was 1987 effort made by Japan's Ministry of International Trade and Industry (MITI now it became METI) and European Commission, when they decided to established Japan-Europe Center for Industrial Cooperation. This center has promoted industrial cooperation between the two sides, by conducting training courses and people to people exchanges for both business persons and students. This industrial cooperation aimed at reducing disputes between Japan and EU.

The institutionalisation of the Japan-EC (EU) economic relations began at the higher level when Japan-EC joint Declaration was adopted at the first Japan-EC Summit at The Hague, Netherlands, in July 1991.the Joint Declaration contains, general principles, objectives and framework on dialogue and cooperation. The Joint Declaration decided holding the bilateral Summit annually. Since then, the Summit has been holding every year.

The Japan-EU Industrial Policy and Industrial Cooperation Dialogue was established in 1993, its aims to discuss issues on industrial policy and regulatory issues between MITI and European Enterprises. Since the inauguration, representatives from both sides have discussed issues of mutual interests regarding industrial policy and industrial cooperation between Japan and Europe.

Japan-EU Regulatory Reform Dialogue was established in 1994, aims to examine mutual requests for regulatory reform to improve trade and investment between Japan and EU. Since 1997, Director General level dialogues have been held at Tokyo and Brussels every year. Each side submit's its requests for regulatory reform of the other side on various issues regarding trade and investment between two.

⁶⁵ : *Rapid Press Releases EUROPA*, 31 may 2007

Regarding the business sector involvement on institutionalisation of the economic relations between two, Japan-EU Business Dialogue Round Table was established in 1995. Representative of private companies from Japan and Europe have got together and have discussed their concerns and provided its requests for governments of both sides.

Joint Declaration on Relations between The European Community and its Member States and Japan, 18 July, 1991, set out objectives of dialogue and cooperation including:

“Pursuing their resolve for equitable access to their respective markets and removing obstacles whether structural or other, impeding the expansion of trade and investment, on the basis of comparable opportunities” and “Strengthening their dialogue and cooperation on various aspects of multifaceted relations between the Parties in such areas as trade, investment, industrial cooperation, advanced technology, energy, employment, social affairs, and competition rules”

The two parties could not provide Press Statements in 6 July 1993 when they held the third Japan-EC Summit. It was the time EC economy was not strong and trade imbalance became the issue at the Japan-EC Summit.

The Press Statement at the 4th Japan-EU Summit in 19 June 1995 wrote that Japan and EU has constructed mutual trust at the administration level and this brought better mutual understanding which enabled solving various economic problems.

The Press Statement at the 5th Summit in 30 September 1996 stated that “Both sides welcomed recent positive trends in bilateral trade,” although at the same time it included that “Both sides noted that problems and imbalances between Japan and EU persist and confirmed that they both intend to continue efforts to find common solutions to market access problems.”

The Press Statement of the year 1996 contained positive message for investments of both ways: “Both sides shared the view that an increase of the level of inward foreign

direct investment in Japan by European companies would be benefit of both sides...The European side also underlined its desire to see more Japanese direct investment in the EU and stressed its efforts to attract Japanese direct investment.”

Regarding industrial cooperation, the Brussels Office of Japan-EU Center was opened in June 1996. In 1997, the Japan-EU Summit expressed the following view on improving trade and investment relations:

“They noted the reduction in Japan’s global current account surplus and its bilateral trade surplus in goods and services with the EU since 1993. However, the EU side expressed its concern that imbalances persist and are growing again considerably in 1997, and stressed that their reduction would contribute to the avoidance of trade tensions”

In 1998, the Japan-EU Summit stated that both sides welcomed the successful resolution of a number of bilateral trade disputes in 1997, and stressed the importance of solving other disputes in a spirit of cooperation in accordance with international agreements and political commitments. In 2000, the Japan-EU Summit determined that “the next ten years, starting from 2001, would be the Decade of Japan-Europe Cooperation.” And both sides started to draft the Action Plan for bilateral cooperation in coming years. Ten years after the Joint Declaration, Japan-EU Action Plan was adopted at the annual Japan-EU Summit in 2001.

Conclusion

The EU of 2007 has a population of over 497 million people (compared with 300 million in the US and 127.77 million in Japan). It is not possible for Japan to ignore the opportunities and challenges the expanded EU represents. It is clear that Japan and Europe can no longer ignore one another. Structural developments and individual initiatives have ensured that their economic futures will overlap. In terms of structure, the changing international system, the effects of globalisation, and the rise of regional

integration require broader and diversified trade orientations. At the same time, in its own dealings with Europe, Japan has sought to counter trade frictions arising from the structural changes within Europe itself. Decisions to base operations in Europe have derived from the comparative advantage of local production, whilst the selection of specific trading partners and investment sites has been decided on the basis of host country conditions and historical relations.

This move into Europe demonstrates not only that Japan-EU relations are primarily concerned with economic dimensions, but also shows how Japanese actors have been able to use economic diplomacy to exercise power in Europe so as to promote a broader agenda. The bargaining positions obtained by Japanese companies through their direct presence in Europe and by the Japanese government through its participation in regional institutions have, moreover, been improved by their ability to deal increasingly with one representative interlocutor on European soil. These developing economic relations, moreover, enable Japanese policy-making agents and other actors to promote their domestically embedded norms of economics and developmentalism within an internationally visible relationship. It remains to be seen whether the continuing effects of globalization will enhance Japan's ability to exploit this normative position further. Together, Japan and the EU comprise over 40 per cent of the world's GDP and in the light of recent developments are likely to advance further their economic relations at all levels.

Chapter-4

Roadmap for the Japan-EU Relationship

As witnessed from the preceding chapters on political/dynamic and economic relationship between Japan and Europe, both are developing their ties by enhancing their ties at all levels gradually. At the same time, if we have to analyse such relationship in terms of global politics, it can be said that the level of such participation is still far from being very significant. Here, it is necessary to consider whether the conditions exist to develop a more intensive relationship, and what still needs be done to make it effective. In this backdrop the present chapter attempts to build up a framework albeit not a decisive one that would act as a basis for the future course of the relationship between Japan and EU.

Situation in Japan

In the present context of 'globalised' world, it becomes inevitable for any country to remain isolated and at the same time could compete in the race of development. Despite odd historical development that has taken place in Japan, it is bound to alter itself by opening up under the global pressure. Japan is changing, whether they like it or not, and most probably they do not, the Japanese are becoming to an extent that may surprise James Fallow "more like us"⁶⁶. Japanese society has been hit by a series of seismic shocks in past years, of equal impact to the January 1995 earth quake in Kobe. The Kobe disaster was a remainder of the permanent uncertainty of living in Japan. It is difficult to forget that there may be another earth quake at any time, and the next one may hit Osaka or Tokyo (Simon Nuttall: 1996).

The social and political earth quakes that have hit Japan in past have been equally unsettling. Beneath the even surface of society provided by the established conventions of recognised communities, there is uncertainty and unease. No one who has read the collection of short stories, *Monkey Brain Sushi*, can fail to be struck by its unremitting depiction of urban alienation and despair.⁶⁷ These tales could equally be set

⁶⁶ James Fallows, "more like us" (Boston, MA: Houghton Mifflin, 1989).

⁶⁷ "*Monkey Brain Sushi*" ed. Alfred Birnbaum (Tokyo, New York, and London: Kodansha, 1991)

in Manhattan or on Paris' Left Bank. The sarin gas attacks on the Tokyo subway⁶⁸ in March 1995 were shocking in themselves, but more so because they revealed the disenchantment of highly educated members of society with the established order. The proliferation of cult and sects is only natural following the decline of the established churches, whether in Japan or the Western World.

There has been gross corruption widespread in the industrialised nations or the western world. Though there may or may not be the concrete evidence for the same but it's a fact that the corruption is persistent. And it is heading towards other parts especially the Eastern part of the world, and is making inroads in Japan. As a result there has been disillusionment among public for the adversarial politics, also, it has negatively impacted the Japanese civil service which acts as basis for the efficient administration, as there is increase in tendency to have confluence of the civil servants with the political officials. In the past this meant assiduous attendance at Liberal Democratic Party (LDP) Committee; now they may well have to work within bipartisan even multiparty system, and to learn technique long familiar to bureaucrats in Washington and capital of Europe (Simon Nuttall: 1996).

Japanese diplomacy more closely resembles Euro-American diplomacy in sensitive areas such as the environment or human rights. Tokyo has been just as outspoken as Canberra and Stockholm about France decision to resume nuclear testing in the pacific admittedly with the additional reason that the Japans are the only people to have experienced a nuclear explosion.

The yen's rise has led to important and probably lasting changes in Japanese society, although economists and sociologist have not yet agreed on what these are.

⁶⁸ The Sarin attack on the Tokyo subway, usually referred to in the Japanese media as the Subway Sarin Incident, was an act of domestic terrorism perpetrated by members of Aum Shinrikyo on March 20, 1995. In five coordinated attacks, the perpetrators released sarin on several lines of the Tokyo Metro, killing a dozen people, severely injuring fifty and causing temporary vision problems for nearly a thousand others. The attack was directed against trains passing through Kasumigaseki and Nagatachō, home to the Japanese government. This was (and remains, as of 2009) the most serious attack to occur in Japan since the end of World War II.

Whatever the real economic significance of the phenomena known to economists as 'hollowing out', industry's move offshore seems to be gathering momentum. It is after all, not surprising that a society which refuses to bring workers to the work, in the form of economic immigrants, should take the work to the workers, sub contractors are now moving to South East Asia, and component are being imported at the expense of traditional keiretsu relationship. Overseas production has an effect on patterns of consumption as it becomes increasingly unclear what are Japanese produced goods and what are not. Imported goods now meet 16 percent of total demand. The high yen has made price differentials a significant factor in the budget decisions of both the housewife and the company buyer. It is forcing deregulation on Japan; the pace may be slow, because of political power structures, but there can be no doubt that deregulation will be achieved in the end. Graduate unemployment is becoming a serious problem, and the fact that it bears most heavily on female graduates may give rise to a vocal and educated feminist movement to rival those in the US and Western Europe. The decline of the tax base too will only exacerbate the fiscal problems caused by the ageing of the population a problem faced by all western industrialised society (Simon Nuttall: 1996).

No general principle is valid unless it is qualified, and the principle that the Japanese are becoming more like other citizen of late 20th century industrialised society is no exception. There is an immense difference between urban and rural society in Japan, the old ways can still be found outside the big cities, nothing will stop the Japanese from believing that Japan is best. This is not unique only the more depressed societies consistently believing in the superiority of all things foreign. The process of change is slow, however. Yet it is sufficiently pronounced, and sufficiently certain to continue, for the Europeans to be confident that here, as probably nowhere else in Asia, are a people whom it is possible to converse against a background of shared problems and shared attitudes.

Domestic Scenario in Europe

If we talk about the sense of the concept of 'unity' in perspective of Japan and Europe, it could be mentioned that the former is more inclined to it in comparative terms

than the latter. It seems that the Japanese are more organized than the Europeans as the boundaries of the Japanese state is defined while that of Europeans is not that well defined due to different socio-historical development of the states of Europe. Therefore to make the discussion simpler and in coherence with the study, the discussion of this chapter will confine itself to the policies, attitudes and potentiality of the European Union. Simply because it is the only European body to have organized institutional contacts with Japan, and it is what the Japanese usually mean when they talk about "Europe". But the European Union is not the sum total of relations with Japan; indeed, these relations will never be really solid until they go beyond the institutions in Brussels

The Japan-Europe relationship is at a stage which present opportunities, but also difficulties. Japan changed radically in response to new economic conditions. The EU should also change, to adapt itself to the altered strategic situation following the collapse of the communist system in Europe and the inexorable drive towards enlargement. What better moment for the Japanese and the Europeans to re-evaluate their relationship? On the other hand, the European Union seems to be unaware or careless of the repercussion its internal reforms will have on its foreign partner's interests. It is facing yet again an identity crisis in which the original community's philosophical foundations are being seriously questioned. This is happening at the time when public disenchantment with late 20th century democratic institutions, fashioned over a century ago, presents a serious risk of undermining the foundations of advanced industrial society. This disenchantment has rubbed off on the EU. If national politicians and bureaucrats are self seeking and irrespective, people believe, then supranational politicians and bureaucrats are supranationally self seeking and irresponsible. The bewildered and therefore beleaguered approach of national governments to these problems has led them to adopt a narrow and costive attitude toward European union reform the negotiation leading up to the Maastricht treaty were essentially inward looking, and the ongoing negotiations at the 1996 inter-governmental conference(IGC) are also likely to be so. If external implications are taken in to consideration at all, they will concern the EU's relationship with the US (Simon Nuttall: 1996).

European Union's relations with Japan will be affected by the outcome of the IGC, if only in a negative way because that outcome is minimal. It is probable that there will be no major change in European foreign policy arrangements. There will be no European defense force set up; there will be no extension of EU competence in external affairs; the Common Foreign and Security Policy (CFSP) will not be absorbed in to the community system; commission will not become the foreign ministry of the Union; and there will continue to be a unclear division of responsibility between member states and the commission in the formation and execution of foreign policy. These ambiguities will intensify the growing mistrust between the commission and member states, thus ensuring that the union's effective force continues to be dissipated and that every new initiative is subject to minute and debilitating scrutiny to verify its institutional orthodoxy.

Possibility of confluence between Japanese and Europeans

The evolution of Japan-EU relations outlined above highlights the relationship's shortcomings. Three tasks, in particular, require urgent attention: enhancing the dialogue process; organization of more number of meeting; and overcoming the lack of mutual interest and understanding at the popular level. These are interconnected; remedies cannot be found for any one problem alone, and progress in one area depends on progress in others, and will in turn facilitate it.

Enhancing the Dialogue Process

The narrow range of dialogue between Japan and the European Union will not widen as long as the union remains preoccupied with the domestic problems. If the commission may talk about trade, but not investment; if the dialogue on development aid has to cease as soon as the boundaries of European Community (EC) aid are reached and the conservation strays in to national territory, if car parts are in, but culture is out, then the Japan-EU relationship will never reach fulfillment. A miracle solution in the IGC, effacing national supranational rivalries overnight, would have to be a global solution and is a politically improbable. A modus Vivendi has to be found. This will require a much closer working relationship between the commission and its member states, both in

Tokyo and in Brussels. Brussels alone is simply inadequate to follow the evolution of Japan-EU policy. The 113 committee meets weekly at the deputy level to supervise the conduct of the common commercial policy, which is why, on the whole, EU trade policy towards Japan works rather well. But this merely exacerbates imbalance between the trade element of policy and other areas, for which no similar mechanism exists. At the quarterly meetings of Japan experts, mainly from the trade ministries of the member states, national representatives are salient and barely conceal their boredom with the proceedings. The situation has to be improved in Brussels. If it is not, then EU policy towards Japan will be made by individual ambassadors in Tokyo, who, however much they know about what is happening in their country of accreditation, are political innocents when it comes to dealing with conflicting interests and pressures back home (Simon Nuttall: 1996).

The countries' ambassadors must be cajoled in to making a more effective contribution. It is not enough for them to write reports and complain when their advice is ignored. If they are to be useful, they will have accepted some diminution of their individual post's aura in order to work as a team. They will even have to accept that the commission delegation has certain role of impulsion and leadership, regardless of the exact delimitation of community competence. The commission, in turn, will have to cede a greater share in the formal responsibility for representing the community to the member states, and recognise that the Union is a cooperative enterprise in which everyone must feel involved.

An important role has been assigned to the ambassador where apart from taking policy decisions on day to day basis, it is required to deal comprehensively the relationship and attitude of the EU towards Japan such that they remains cordial. A start could be made by producing an inventory of what is already being done; some ambassadors admit that they do not have a full picture of all the contacts between their own citizens and Japan, which might well provide evidence that Japan-Europe relationship is more substantial than the rather gloomy picture presented here. With the

full range of facts, it would then be easier to see in what areas more cooperative activities would give added value.

Organization of more number of meetings

Encounter between Japanese and European Union representatives which is possible in terms of meetings are insufficiently frequent: this is a major bottleneck in the way of prosperous relationship that could have been established than hitherto. It can only be remedied by a great deal of hard work and expending time and money. This will not be forthcoming unless the interest is there, which in turn depends on a strengthening of popular understanding of Japan and the Japanese. The Trade Assessment Mechanism (TAM) and deregulation dialogue are just as important as trailblazing forms of contact and dialogue as they are for their problem solving capabilities. There must be a perpetual renewal of dialogue: existing areas should be reviewed, and the dialogue on development policy, in particular, should be revitalised.

The Japanese must play their part in this effort. The unswervingly negative attitude of officialdom to any new ideas for broadening the Japan-EU relationship must give way to an enthusiastic embrace of dynamic and the inventive. If the Japanese Foreign Ministry is to remain the authorised channel for the EU's official contacts with the Japanese administration, then it must organise itself consequently. No senior Gaimusho⁶⁹ official has relations with EU as his main responsibility. Even at Deputy Director General level (the approximate equivalent of assistant under secretary in the UK Foreign and Commonwealth Office), this is combined with overseeing multilateral economic affairs, which, not surprisingly, take up most of the available time. The small band of hard working officials who deal with the EU also has to look after the details of bilateral relations with the EU member states. At present the administrative arrangements are not in tune with the ambition to build a substantial Japan-EU relationship which needs to get altered. Actually favorable participation is a mandatory condition from both the sides, i.e. if EU reorganizes itself for the better relationship with Japan then the latter must pay its cognizance and rebuild it accordingly.

⁶⁹ "Gaimusho" is Ministry of Foreign Affairs (MOFA).

It is erroneous to assume that the dialogue at the official level is sufficient though it is crucial. Participation from various private organizations is equally important. Conferences are important, and, since the multiplier effect is relatively limited, there must be many more of them to give a greater density to relationship, especially in the academic and business worlds. But just like the official dialogue, this will not happen unless the popular interest exists.

Overcoming lack of understanding at the popular level

Japan remains mysterious and impenetrable to the European population at large. Its language and writing are comprehensible to few, and the way its society is organized gives rise to the ridicule and suspicion engendered by ignorance. This popular press' coverage of the 60th anniversary of the end of World WarII in the pacific was instructive for the study of Japan-EU relations: it revealed that popular conceptions of Japan are out of date and stereotyped. No reports indicated that Japan had moved on in half a century, and had some respectable achievement to its credit, including the embodiment of civilian society as a workable position.

Until these stereotypes are replaced with a reality based on experience, the essential underpinning for a strengthened relationship will be lacking. There is no substitute for visiting Japan, yet most Europeans do not do so. Distance cannot be factor, because Thailand, scarcely any closer, is popular holiday destination for package tourists. The greatest current deterrent must surely be the high yen, but even if Japan were more affordable, it would still be daunting to the foreigner. The Japanese government should do more to promote Japan as a tourist destination. There is a highly developed tourist industry in Japan, but it is geared to the needs of the Japanese. Assistance should be given to break this mould. Newcomers in the sector will not be welcome, and no doubt the usual market opening marathon will have to be run, but the cumulative results over the years in terms of greater understanding would be appreciable.

The steps to break down the ice must be initiated and continued from the side of young generation. Many young Europeans are beginning to spend time working in Japan

after university, but members are limited by the shortage of finance and of the necessary administrative infrastructure. A substantial effort should be made to boost the numbers to the point where Japan becomes as familiar as the United States to young graduates. This is an area in which European ambassadors in Tokyo can play an important part.

Graduate will gain more from their experience of Japan if they speak some Japanese. Some schools in Europe are beginning to offer modern Japanese. This must be encouraged. Similarly, the shift in university resources away from classical Japanese towards contemporary linguistic and social studies must be accelerated. Japanese companies which have invested in the Europe have been commendable generous in funding academic study of Japanese society and culture, but much more need to be done, especially in countries which have received less Japanese foreign direct investment (FDI) than others. European firms should emulate their Japanese counterparts in academic munificence.

Such increased activities can develop naturally, but they will do some more quickly, and the role they play in reinforcing the relationship will be more apparent, if they are provided with a structure. A new structure would give concrete recognition to the fact that, uniquely among Asian countries, Japanese society has reached the evolutionary stage in which many of the problems it confronts and many of its approaches to them coincide with those current in western industrialised society, particularly European Union and United States. The EU is unlikely to find itself in fundamental agreement about the basic problems of society with any other Asian country. This concurrence of approach should be encouraged and given recognition in a formal treaty relationship. The time has come for Japan and the European Union to negotiate an agreement in proper, legal form.

In addition to the wider purpose such an agreement would serve, it would also bring some immediate tactical advantages. It is certain that the European Union will engage in an institutionally strengthened relationship with the United States within the next few years. When that happens, the Japanese will ask Europe just as they did after the "Transatlantic Declarations" of 1990 for comparable treatment. Equal treatment will be

casually accorded, but the relationship's substance will be none the better for it. The melancholy history of the 'Hague Declaration of 1991' will repeat itself. If negotiations for an agreement start now, at relative leisure, then the Japan-EU relationship can be assessed on its own merits, rather than as a simulacrum of the transatlantic relationship.

The idea is not new one. Negotiations for an agreement in the early 1970s broke down over the question of safeguard clause. With this customary prescience, then European Commission President Jacques Delors was mediating an agreement with Japan as early as 1991. His prudent officials dissuaded him from launching the idea at the time, probably rightly, since the member states would have reacted with horror and the Japanese with polite embarrassment. But Delors analysis was right, even if he was ahead of his time. That time has now come.

Japan's Visions of her Future

There have been three major 'Visions' about Japan's long-term future published in the last three years.

The first one is 'Japan's 21st Century Vision (2030)'. Japan's "Council on Economic and Fiscal Policy" (altogether 10 persons plus chairman) presided over by the Prime Minister (then Prime Minister Koizumi) and comprising Ministers of the economically most relevant ministries, the Governor of the Bank of Japan, influential businessmen and academics, established in 2004 a special board of enquiry for examining "Japan's 21st Century Vision". Based on deliberations of four working groups, the 'Board' condensed their results into a report presented to the Prime Minister in April 2005, under the title "A New Era of Dynamism: Closer ties and a Wider Range of Opportunities". In its own words, it "is a strategy for further development of Japan's socio economy for the coming quarter century up to 2030 and it aims to show the big picture of Japan beyond the structural reforms currently being carried out by the Koizumi Administration." The second one is the vision of business about Japan's longer term future, issued by the leading industrial and commercial association, the Nippon Keidanren in January 2006, called 'Japan 2025 – Envisioning a Vibrant, Attractive

Nation in the 21st Century. The third one is the vision of the METI, Ministry of Economy, Trade & Industry and Industry, about the desirable future of Japan's industrial and commercial structure. This vision, in the form of a report issued in 2004, bore the name of the then METI Minister Nakagawa and is called 'Towards a Sustainable and Competitive Industrial Structure'. It has been updated and refined since then in 2005 and 2006. These visions have not been developed independently of each other, but in discussion and cooperation. That is the reason why, though emphasis and intention are different,

There is coherence in the outlook. The focus is on Asia. That Japan's future economic and political fortunes lie pre-dominantly in Asia is clearly confirmed by all three visions. The first two visions explicitly foresee and urge a greater openness of the country with an emphasis on a better integration into Asia. Japan would "*...become a country without walls...an open archipelago...more closely integrated in the world economy... people will want to live and work in Japan*". (21st Century vision). The Keidanren vision dramatically says, that "Japan will open itself to the world for the third time in its modern history." In the METI vision integration with Asia is implicit in the description of the desired division of labour with Asia.

In achieving her opening, Japan sees its role pre-dominantly in Asia as an economic and political power and integrator. In the 'soft' language of the 21st Century vision: "Japan should form a peaceful and stable East Asia while maintaining the closeness of Japan's alliance with the United States and friendly relations with Europe." To note: this is the only place where in this semi-official 'Vision' of Japan "Europe" is mentioned. However this 'Vision' also sees Japan's role as a "bridging country", that provides arenas for wide-ranging exchange and proposes to address the East Asian integration with greater urgency in the next one or two years. In fact Japan's new trade policy launched since then, promotes a great number of so-called EPA (Economic Partnership Agreements) foremost with Asian nations and ASEAN. The result of that is now teasingly called a 'noodle bowl' because of its entangled complexity. Keidanren in

its “Vision”, supported by METI, therefore calls for a unified trade approach towards Asia. Keidanren critically views the Asian nations’ approach (“disparate approach”) of concluding individual trade agreements with nations around the world as “unsatisfactory” and judges that in the end these will “not position East Asia as a hub of global growth”. The Keidanren vision also suggests that Japan should create global rules levered on Japanese technologies and knowledge and sees Japan as an economic organiser to contain benefits within the region. It foresees that “by 2025 Japan will have staked out a strong leadership role in the development of a regional economy encompassing more than 2 billion people and 7 trillion in total GDP.”

In the mind of any seasoned trade negotiator such pronouncements raise the specter of a ‘Fortress Asia’ under Japan’s economic leadership. It is not by chance that Japanese Economic Partnership agreements (EPA) go beyond straightforward Free Trade Agreements of the WTO kind. They include other economically and trade-wise important elements for Japan, such as agreements on direct investments, government procurement, competition etc. There is also first anecdotal evidence of Japanese attempts to creating de facto Asian standards for supply chains and products that would if not prevent, then at least delay the market entry of others, including that of the Europeans. In the Keidanren vision, Europe is equally only mentioned once, as already said above as a ‘competitive and dynamic economic sphere’ that together with the American area in a global competition needs to be balanced by an integrated economic area of East Asian nations.

Pour memoire: in the late 80’s early 90’s, Japan with great vigor and in unison with the United States was accusing the EU to create a ‘Fortress Europe’ when the EU was trying to establish the European Single Market, which was, as a matter of fact, a Treaty obligation.

Europe’s vision of her Future

The EU launched its so called ‘Lisbon Strategy’ at a European Summit in 2000 under the Portuguese EU Council presidency. It was an ambitious attempt to use ‘die

Gunst der Stunde' (window of opportunity) of a booming economy and of its technology domination in mobile telephony (European GSM-standards). It turned out to be a false start, as the dot.com bubble untimely burst and Europe found itself soon trailing the US and Japan when it came to key economic drivers, productivity and Science & Technology (S&T) investment. The ambitions of the Lisbon agenda were set high: an increase in average GDP growth potential to 3 percent, a ratio of 3 percent Research and Development (R&D) investment of GDP and a sustained growth in labour productivity. The EU also knew that it had structural weaknesses in its industries. Those were a lower share in ICT sectors compared to US and a concentration of trade in sectors with medium or high technologies and low or intermediate labour skills and insufficient R&D investment in particular of the private sector compared to its main competitors the US and Japan. It also became clear that in the absence of reforms, the EU's growth rate of about 2 percent 2.25 percent would be halved to 1 percent 1.25 percent by 2040.

Re-launched 2005 with a stronger involvement of the EU Member States, adorned with deregulation, a new 7th S&T Framework Program plus a new Industrial Policy it is to date still the ambition:

"To make EU the most competitive and dynamic knowledge based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion".

The latter part of the phrase is indicative of Europe's true ambitions that is, of the Lisbon Process as means to the end to achieving Europe's "Sustainable Development" and the preservation of the "European Social Model". This reflects the present, entwined power triangle in the EU's decision making process: economics, environment and social considerations.

The re-launched Lisbon Process is still in its early days. However despite encouraging signs of a cyclical economic upswing the jury is still out, whether Member States have done and are doing enough to bring about the vital economic and educational structural reforms for knowledge and innovation, that would lead to the sustained

productivity increases the Lisbon Process so desperately needs to succeed. The original steep 3 percent growth target is still there and deregulation and private S&T investment remain till to date unsatisfactory. Enlargement has not made things easier. May be a Lisbon II or another form of extension will become necessary.

Of course the Europeans are worried about this. "It is primarily in factories that the productivity gains which raise living standards occur" Centre d'Etudes Prospectives d'Informations Internationales, 2004 (CEPII) and a successful industrial policy is key to this. The industrial policy framework was delivered by the Commission in 2005 with the Title: "Implementing the Community Programme: A policy framework to strengthen EU manufacturing – towards a more integrated approach for industrial policy". As European, one would hope that this progressively developed horizontal but sector-specific policy would succeed and it might be worthwhile to pause and consider what it means if it fails. A failure of the EU industrial policy would mean a failure of the Lisbon strategy, since its pivotal issue is productivity increases. Here is a worst case scenario developed by the renowned French institute CEPII. That looks like this:

- Europe unable to reform; slow growth, confirmed trend of delocalisation and capital flight;
- United States and Japan consolidate their edge in communication and information industries;
- Europe misses out on biotech (jeopardizing its pharmaceuticals industry) and loses its lead in space and aeronautical industries;
- Standard products: European companies for survival resort to large scale delocalisation;
- Emerging countries (BRICS) catch up quickly, they make progress in the institutional sphere;

- There would be technological decline in the EU, leading to a *European retreat* into sheltered activities.

CEPII's conclusion: "the (*negative*) impact on European living standards could well be permanent and considerable."

Assuming then that the EU would make a success of the Lisbon Strategy, is that good news for the World? Somewhat surprisingly, that seems to depend not only on the EU! Two Scenarios, if one believes the CEPII analysis, are possible:

Shared prosperity

- EU returns to its potential 3 percent GDP growth (Lisbon) thanks to goods or labour market reforms and re-conquest of ICT and science fields
- Emerging economies catch up quickly thanks to institutional and governance reforms and resolution of extreme income disparities.

Conflictual trade relations by technological domination of North over South

- EU fulfils its Lisbon ambitions *inter alia* via technological edge, strengthens and strategically protects its IPR
- Institutional or democratic problems in the South remain unresolved; pay kept low relative to productivity
- Trade conflicts become pre-programmed.

Future of Japan-EU relations: Conflict or Cooperation?

Incidentally, Japan is not very sure to get success in its vision for the future. One reason which could be assigned for this is the low returns from the Total Factor Productivity (TFP) in the coming years from now. TFP which is the driver of labour

productivity in the '21st Century Vision' is set at just under 1percent for the latter 10 years of the forecast resulting from increases in the capital labour ratio, technological innovation and more efficient factor allocation. That is high by all standards. Labour productivity is forecast to grow over these 10 years at a rate above 2 percent. Beyond productivity, competitiveness and economic growth matter. The first question then is, will Japan be able to achieve the GDP growth of 2percent until 2025 (Nippon Keidanren) respectively the 1.5percent (between 2021 and 2030) of the 21st Century Vision? The recent growth rate would suggest that a 2percent GDP growth should be possible until 2010 from when on the population shrinkage shall display its full effects. Beyond that everything will depend on the satisfactory development of productivity while a replenishment of the work force through the employment of elderly workers or in particular by qualified immigrant workers, one would think, will be slow to come. On the other hand a productivity growth of 2percent for the period 2020-2030 suggested by the 21st Century Vision seems, as already indicated, to be on the high side, given that the projection is linked to a rather substantial growth rate of "just under 1percent" of TFP during that same period (compared to 0,3percent for the five years 1999-2003). Leaving the considerable problems of correctly measuring TFP aside, a steady growth of TFP would normally require also a steady flow of technical innovation, sectoral restructuring towards higher value added technical content sectors and shedding of protection for politically important caucuses like financial services, agriculture, construction etc. Taking *inter alia* into account recent research on Japanese long-term TFP, there must be some doubt whether Japan can assume a sustained high TFP growth over a lengthy, de facto post-industrial period with an ageing population.

Conclusion

Looking towards the trade share in terms of Global GDP, it becomes clear that Japan and EU accounts for around 40 percent. Therefore these two are major economic players in the global economy. Trade between the two areas amounts to more than euro 150 billion a year. In addition, mutual investments have increased with the EU being

today's largest source of foreign investment. However, despite these strong economic ties, this relationship can and should be strengthened.

Various scholars advocate the establishment of a new Japan – European partnership which should increase cooperation in number of areas. This should be done through the creation Japan-EU economic partnership.

This new institutional structure would have to be established respectively at high commission/ministerial level and should focus on issues of common interest between Japan and the European Union. Priorities should be set and the work coordinated by the Japanese ministry and the European commission in charge. It should involve the Japanese Diet and the European parliament, as well as the business communities represented by Nippon Keidanren and business Europe.

Japan and the European Union should focus their cooperation on bilateral issues including:

- Industrial cooperation, focusing on regulatory cooperation, mutual understanding of existing and upcoming regulations on each side, and promotion of the better regulation agenda.
- Cooperation with regard to safety of food products, phytosanitary standards.
- Development of respective service markets.
- Implementation of existing strong bilateral investment rules.
- Securing reciprocal market access to procurement markets.

In addition they should strengthen their cooperation with regard to global challenges.

- Access to raw materials.
- Protecting of intellectual property rights (IPR) around the world.
- Strengthening the multi lateral trading system within the WTO.
- Further cooperation in the areas of environment, energy and innovation.

Chapter-5

Conclusion

The present International Politics holds its base in different forms of relationship that is existent between different states or between different regional or global powers. In this context the relationship, both on economic as well as political fronts, of Japan on one hand and EU on the other is significant to understand the inherent dynamism of the Global politics especially after the end of the Cold War. The preceding chapters have shown how representatives of the Japanese Government and the European Union (EU) have discussed a wide range of bilateral, regional and global issues at their various forums. These different levels of interaction influenced bilateral Japan-EU relations in different ways. With the changing international atmosphere after the end of the Cold War, this has placed new pressures on their own foreign policy structures as well as upon the regional and global institutions in which they jointly interact. These pressures have been intensified by a growing number of activities which are pursued at non-governmental level, and are also reflected in government responses to them. Over time, Japan and the member states of the European Union have expanded their initial areas of interactions. These are today recognised explicitly within the 'formalised' boundaries of the 'Japan-EU dialogue'. Within this 'institutionalised' structure, Japan and the EU have begun to establish and make use of the numerous issues their relationship is best equipped to address. Many of the relevant issues have become important since the end of the Cold War and have dominated the agenda of international organisation since the start of the new millennium.

This present chapter examines the ways in which their intensified bilateral dialogue is suited to deal with the imperatives of the complex atmosphere in which it exist at the beginning of the twenty first century. Firstly, it will try to understand the relevance and feasibility of bilateral dialogue, between Japan and EU, in the present multilateral world which seemingly has its core at the US. Secondly, it examines the impact of institutionalisation on the dialogue. Thirdly, it reassesses the potential for Japan and the EU to become global civilian powers.

Relevance of Bilateralism in a Multilateral World

Earlier chapter has shown that there is change in the domestic as well as foreign policy of Japan and EU which is an obvious outcome of the dynamism that is present in the politics at the global level. As the contending race between two global powers i.e. US and USSR came to an end in 1989, various new developments took place all over the world of which emergence of regional powers at the global scale is more prominent. This has directly promoted 'Multilateralism' which led to building of nexus of various transnational actors affecting bilateral relations between states. In the case of Japan and the EU, it is clear that their bilateral interaction offers a useful platform for inter-regional and global affairs. It also provides them to discuss issues at a very informal level which at the same time can also be sanction-specific. The Japan-EU bilateral interaction also offers an important means of stabilizing relations within and between the two important regions of East Asia and the Europe. Japan and the EU are thus able to balance the position of the US within bodies such as the WTO and the UN. At a regional level, too their relation provides a point of departure for the development of inter regional initiatives, such as through the ASEM process. For these reasons, bilateral relations acts as an important middle ground between the Japanese and EU policy making on the one hand, and international engagements on the other.

Analysis of the 'bilateral' relations between Japan and EU makes it clear that in strict sense it is much beyond that. It represents a set of relations between Japanese government and its European partners within the EU. Nevertheless, by acting in a bilateral manner several benefits can be gained by both the partners. Firstly, by dealing with the EU, Japan is able to adopt a resource saving strategy of having one relationship rather than maintaining separate twenty seven relations with all the member state of the EU. This particularly is visible in the context of the activities of Tokyo itself. Added to this, there is also the potential to deepen the relations with all the member states in all their negotiations. This is true in all their negotiations which ultimately deepen the role of the EU and Japan in the international arena.

As this study shows, most of EU's political, diplomatic and economic dimensions, including relations with third countries, are based on ad hoc approaches to specific needs. From the EU's perspective, a planned and determined approach to Japan provides the member states with greater political and economic legitimacy than they could handle alone. The intensification of this bilateral dialogue could therefore serve to save time and resources as well as enhance the position of the nation states involved. One of the effects of this development which has already become clear is the growing use in Japan of the term 'EU' to refer to the European continent. The introduction of the euro and the enlargement of the EU's membership are certain to further strengthen this already widespread concept of Europe within Japan and to intensify this bilateral arrangement. In these ways, the bilateral relationship is both important and unique as well.

On 5th April, 2004, MOFA and the Council of the EU jointly hosted the Ministerial Conference on 'Peace Consolidation and Economic Development of the Western Balkans' in Tokyo. This demonstrated not only a growing Japanese commitment to European security concerns, but also support for a foreign policy agenda based upon the three pillars of consolidating peace, economic development and regional cooperation. This three-pronged approach to Europe represents a deepening of the concept of human security and further advances Japanese attempts to strengthen its relations with the EU. Already accommodating over 450 million people in 2004 under its enlargement programme, with the further induction of Bulgaria and Romania in 2007, the EU definitely has become a major international economic actor.

The economic relations with the EU also forms part of a broader diplomatic agenda and range from bilateral, regional and international encounters. Constituting over 40 per cent of the world's GDP, the Japan-EU side of trilateral relations with the US has taken responsibility in addressing the effects of globalization. The political realm of Japan and the EU now includes a range of issues relating to sub-national, national, regional and global agendas. Moreover, the 2001 Action Plan further consolidates the solid foundations for that relationship. In this field, trilateralism provides a stable framework within which these three major industrialized powers or regions of the world

can address issues of contemporary concern. It can also find means to bring together Japan and Europe in mutual opposition to the US over a number of specific issues. In the field of security affairs, the growing dialogue between Japan and Europe facilitates the development of a potential alternative security agenda in the face of changing international challenges.

Japan-EU: Balancing Relationship

The political dimension of Japan's relations with Europe has become more and more formalized. The Japanese Government has succeeded in using this relationship in serving its wider political agenda. Their bilateral relations was sustained by a set of formal structures during the 1990s and, reinforced by the 2001 Action Plan. These structures facilitate regular dialogue between Japanese policy-makers and the Council of Ministers of the EU. In this way, the Japanese government has come to recognize the key role of the EU as an international actor with which it shares common interests. The Japanese government and its people also recognize how the 1992 TEU⁷⁰ integrated the political and economic agenda of the Union, but also promote the EU's status as a legitimate trilateral pole in order to balance their own relations with the US. The reality of an expanded Europe makes this imperative. Whilst the US remains the key international partner for Japan, Japanese policymaking agents have also begun to foster relations with Europe as part of a strategy of diversification in their foreign policy, with the potential to develop an alternative common agenda. The end of the Cold War and increase multilateralism offers Japan the possibility of using its trilateral relations to form a core group around which contemporary international agendas can be formulated. In these ways, Japanese policy-makers are able to provide Japan as a key political actor without raising concerns about its regional and global role among its trilateral counterparts or those outside the triangle.

⁷⁰ Treaty on European Union (or 'Maastricht Treaty')

Tripolar Competition

Economic dialogue has been the core of Japan's relations with Europe throughout the post-war era. Since then, Japan has been in conflict many times with one or more EU member state over economic issues (such as anti-dumping). Their lengthy history of economic interaction and the coherent role of the EC/EU in the economic dimension have ensured the continued development of their economic relations. Trade relations have also enabled the Japanese Government and business community to play a direct role in European affairs, as many Japanese productions operates in Europe. Many Japanese Companies have located their activities directly in Europe with the deepening of the EU during the 1980s. These companies contributed to the economic development of Central and Eastern Europe through trade and investment. Therefore, enlargement of EU in 2004 should be recognized in part, as the fruit of Japanese labors.

A trilateral norm was established with the launch of 'Euro' which added to the existing US 'Dollar' and Japanese 'Yen'. Having established the trilateral relations with US, and EU, Japan utilized economic power of these two to situate itself at the heart of a new international economic order. This has served several purposes for Japan. First, trilateralism in the economic dimension enables Japan to counterbalance not only the role of the 'dollar', but also provides an opportunity for 'euro' to play an active role in the state. Second, with this, Japan got an opportunity to have a proactive involvement at the international affairs. In this context, Japan's position at the 1998 G8 Birmingham summit, was demonstrated when it assumed responsibility in the East Asian Region in the wake of the East Asian financial and economic crisis. At the APEC meeting in Santiago in November 2004, the then Prime Minister Koizumi promoted talks on a free trade agreement involving China. Third, the trilateral framework affords Japanese exporters and investors the possibility of adopting 'two-versus-one' alliances in forums such as the WTO, in order to gain more leverage against the trilateral partner in opposition. This 'two-versus-one' structure often placed Japan in opposition to a US-Europe alliance. Fourth, Japan's growing economic relations with Europe ensured that Japanese business

could now take up opportunities in Europe and, through their own chambers of commerce as well as direct business-to-business dialogue with their European counterparts. In that position, they have not only enjoyed privileged opportunities within the borders of the Community, but have also played an increasingly significant role in voicing an opinion over the direction of EC/EU economic policy agendas themselves. In these ways, the Japanese government and its people are able to influence European economic policy both directly and indirectly.

Triangular Unity

Military security issues have never been the most important in Japan's relations with the EU. That is not to say, however, that no security dialogue has taken place at all. Since the respective concerns of Japan and the EU over issues such as nuclear non-proliferation, humanitarian and environmental problems, and post-crisis society-building have been reformulated into joint bilateral efforts to follow an alternative path towards security issues. As a result, the security dimension with Europe has been instrumentalized by Japanese policy-makers in order to present an innovative approach to these issues, which now forms an important pillar of their relationship. Two factors are important to note down in relation to security: the role of multiple actors; and the search for legitimacy for this kind of approach to security. First, this dimension of bilateral relations has benefited from growing direct contact between Japanese and European NGOs, since they are at the forefront of activities such as aiding conflict zones and campaigning to abolish antipersonnel landmines. It appears that there are hidden motives of Japan related to furtherance of such policy of development of informal channels in the pursuit of security dialogue. This could persuade the domestic audience to believe that security issues are led by the people, while to the world it is demonstrated that Japan's security policy is neither based upon military propositions nor solely the domain of policy-making agents. Second, Japanese Policy-makers have formulated their human security proposals within multilateral fora to gain legitimacy for them and have proactively sought to promote this kind of alternative security agenda. Moreover, by linking their strategy to trilateral

efforts, the Japanese are able to garner support from Europe, which contains several militarily neutral countries and, as the EU, does not have a standing army.

Having a close look at the Japan's relationship with EU in specific dimension of politics and economy, it can be said that after the end of the Cold War, EU has emerged as an important partner that could yield economic returns. Along with this it has strengthened Japan's international status and its foreign policy which was earlier being limited to the context of US. Further, the EU has provided support to Japan by the way of bilateral relations with the twenty seven nations of the European continent simultaneously. This has paved way to carve out related benefits on various fronts as economy, military, etc. by the state of Japan from tripolar relationship established with EU, and US. If we look this relationship of Japan with EU from the lens of international diplomacy where each state is striving to outdo other(s), it appears that mutual cooperation between Japan and EU would yield maximum benefit to both in the wake of unipolar diplomacy of US.

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