

From Confrontation to Global Partnership—Europe and Japan

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INTRODUCTION

How did the EU--Japan relationship develop over time? How can the dots be tied together? I try to explain both the path which the EU and Japan have embarked on since the 1970s and the direction these economic giants are heading to. It has often been said that there is no future without history. If that is so, the insights to be gained from an analysis of the dynamics of the past and present relationship between the EU and Japan can provide valuable contributions to the preparation and implementation of a future EU--Japan political and economic framework. Looking at what has been achieved in the past, considering which approaches have been successful and which not, reflecting on which hurdles had to be overcome and which obstacles still remain is instructive not only from an academic point of view, but also for those involved in drafting the contours of the future partnership between the EU and Japan.

THE GENESIS OF POSTWAR EU--JAPAN RELATIONS

Economic growth in Japan developed at a remarkable pace already since the Meiji Restoration in 1868. The first export markets that were targeted by mainly the textile industries were to be found in Europe. France, Germany, England but also the Netherlands and Belgium played an important role as export markets and advisors for the modernization of Japanese institutions that became the base for industrial growth.¹ The most important trading partner of Japan during the nineteenth century was not the US neither China, but Europe. Indeed, the ‘first economic miracle’² in the decades after the Meiji Restoration was induced by Europe.

After the Second World War, the European countries became once more a stepping stone for Japan’s ‘second economic miracle’, but this time much more in the shadow of a newly arisen superpower: the United States. Europe’s high income-elastic markets became the other target for Japan. As a large, economically advanced and increasingly integrated area, Europe was attractive to Japanese exporters of especially high value-added industrial goods. As a result, Japanese products overflowed the European markets and complaints by domestic producers started to erupt for various reasons. Consequently Europe, initially at the level of individual member states but increasingly at the European level, experienced growing trade tensions and became engaged in outright conflicts with Japan just as the US were.³ At times the tensions that arose between Japan and European states were as serious as those facing the US and Japan, and just as difficult to manage without resorting to outright protectionism, which, in turn, might have invited a protectionist backlash from the US. Indeed, from the late 1970s until the mid-1990s, the most difficult period in the relationship, both the US and the EEC/EC/EU remained very much alert to any risk of trade diversion should the other

¹ T. Morris-Suzuki, *The Technological Transformation of Japan: From the Seventeenth to the Twenty-first Century*, Cambridge: Cambridge University Press, 1994, pp. 304.

² S. Shuhei, *Origins of Economic Thought in Modern Japan*, London and New York: Routledge, 1994.

³ Some of the many publications on the issue of trade conflicts between the US and Japan: W. Dobson and H. Sato (eds), *Managing US--Japanese trade disputes: are there better ways?* Ottawa: Centre for Trade Policy and Law, 1996; N. Naka, *Predicting Outcomes in United States--Japan Trade Negotiations: The Political Process of the Structural Impediment Initiative*, Praeger Pub: Westport, 1996

take trade restricting measures vis-à-vis Japan.

INCREASING TENSIONS IN THE 1970s

Economic relations between the European Community (EC) and Japan first came into focus in the 1970s. The EC was at that time engaged in internal institutional and economic developments as barriers between Member States were reduced. Japan, for its part, was building up its industry by advances in new growth industries, such as consumer electronics and computers, and higher productivity in industrial industries. The net result of these adjustments in its economic policy was to increase the energy efficiency of manufacturing and to expand so-called knowledge-intensive industries. This new policy of the Japanese authorities also aimed at developing exports of motor vehicles, electronic products and other specialized sectors.⁴

The first multilateral negotiations between the EC and Japan started in 1971 and aimed at concluding an EC--Japan agreement to replace the existing bilateral arrangements and restrictions. The discussions failed when Japan balked at the inclusion of a safeguard clause. It was clear from the onset that negotiations on trade issues would not be easy because both sides wanted to sustain similar levels of economic growth as during the 1950s and 1960s. Nevertheless, one step forward was made through the establishment of permanent missions in Brussels and Tokyo, regular High-Level Consultations and ministerial visits. On the trade side, however, there were mounting difficulties throughout this period. Japanese exports increased substantially in a range of sectors such as steel, cars, machine tools, ball bearings, TV and electro-technical products. EC exports to Japan, on the other hand, showed little improvement. European negotiators increasingly realized that the closely integrated nature of the Japanese industry at all levels made import penetration exceptionally difficult and that therefore no substantial changes in import levels of manufactured goods could be achieved.⁵ The 'closed' Japanese market started to attract the attention for the first time of American scholars and policymakers alike. The difficulty of exporting to Japan, aggravated by the 1973 and 1979 oil crises, led to an ever-increasing EC trade deficit with Japan. For both, relations with the US were of critical importance, with apprehensions on the EC's part that Japan would favor the American side of the triangle. The beginning of Japanese investment in manufacturing industries in Europe was one of the few positive signs. Although the number of meetings intensified and agreements such as the *1978 Ushiba--Haferkamp Joint Statement* provided a brief respite, the political and economic pressure for stronger measures grew steadily and in 1982 the EC called upon Article XXIII of the GATT on the ground of Japan's nullification and impairment of the benefits negotiated in successive GATT Rounds.⁶ The EC arguments and evidence were set out in written proceedings and the matter was pursued in a series of meetings in Geneva. Japan rejected the EC's position, although the facts advanced were not disputed. The basic issue between the two sides thus remained unresolved. The general discourse in the first period of the EC--Japan relationship was therefore one of tension and confrontation.

⁴ R. Dore, *Flexible Rigidities: Industrial Policy and Structural Adjustment in the Japanese Economy, 1970-1980*, Stanford University Press: Stanford, CA, 1986.

⁵ G.R. Saxonhouse, 'The Micro- and Macroeconomics of Foreign Sales to Japan', in W.R. Cline (ed.), *Trade Policies in the 1980's*, Washington D.C.: Institute for International Economics, 1983, pp. 259-304; G.R. Saxonhouse, 'What's Wrong with Japanese Trade Structure?', *Pacific Economic Papers* 137, 1986.

⁶ Ch. P. Bown, 'The Economics of Trade Disputes, the GATT's Article XXIII, and the WTO's Dispute Settlement Understanding', *Economics & Politics* 14 (3), 2002, pp. 283-323.

A THAW IN NEGOTIATIONS IN THE 1980s

EC--Japan negotiations entered a new stage from 1983 onwards as they focused on export moderations and the problems of their subsequent management against the background of persisting and growing mutual trade balance problems. The EC struggled with finding a way to efficiently tackle trade frictions which arose from the ascent of Japan as a determined exporter and a major industrial power. Throughout the negotiations in the 1980s, the Commission consolidated its trade policy authority which showed that the process of transformation in Europe was gradually leading to a more unified Europe. EC--Japan trade negotiations during this period can only be fully understood if they are seen in the context of the earlier development of overall bilateral, including political, relations. The Member States did not easily give up their own bilateral approach to trade policy. In the 1980s especially, some powerful French politicians were very active in setting the agenda for Community trade action. The first results from the trade negotiations were obtained in this period. Both Japan and the EC started genuine discussions to move ahead to solve extant trade frictions. Both parties even agreed on such issues as the setting of quantitative, verifiable export restrictions and obligatory export floor prices. This clearly gives evidence of the fragility of trade doctrines when they are confronted with global economic reality. The GATT Article XXIII dispute procedures which the EC had launched were *de facto* settled in 1983 when Japan adopted a wide-ranging Voluntary Restraint Agreement which limited and controlled Japanese exports of sensitive products to European markets.⁷

In the second half of the 1980s, also other solutions to trade disputes and positive developments were recorded. Some of the disputes resulted into policy changes and legal reforms in Japan and proved that the European insistence on the issues of concern were not futile. Among the long-lasting trade disputes which had troubled relations between Japan and the Community up to and during the 1980s, there was one concerned with the structure of excise taxation applied to alcoholic beverages in Japan's Liquor Tax Law, which underwent a major reform in 1989 in response to a GATT dispute case brought by the Community against the discriminatory effects of that taxation. From the European side much was expected from these reforms which in practice would substantially reduce the incidence of taxation, especially on premium alcoholic beverages such as whisky and brandy, relative to domestic alcohol. There was the prospect of a substantial expansion of the market for western-style liquors and, within that volume, a greater market share for European imports given their global prominence. The reforms within Japan on the issue of liquor tax were only effective in light of foreign pressure. Foreign pressure or *gaiatsu* was often the only possible way to obtain policy changes in the wake of a weak opposition to the ruling conservative Liberal Democratic Party and its allies in the bureaucracy and industry.⁸ The foreign firms and trade councils were part of the game, representing large and legitimate interests. They also employed skilled and determined lobbyists, both in public and private. In the end, resolution of the dispute was welcome on both sides, allowing Europe and Japan to move forward to deepen their relationship with one less thorny issue to tackle.

⁷ M. W. Lochmann, 'Japanese Voluntary Restraint on Automobile Exports: An Abandonment of the Free Trade Principles of the GATT and the Free Market Principles of United States Antitrust Laws', *Harvard International Journal* 27, 1986, pp. 99-157.

⁸ L. J. Schoppa, 'Two-level Games and Bargaining Outcomes: Why *Gaiatsu* Succeeds in Japan In Some Cases But Not Others', *International Organization* 47, 1993, pp. 353-86.

At the time of the Japanese Bubble Economy, the EC's trade policy consisted primarily of continuing efforts to control trade frictions between the EU and Japan. The reason for this was that the EC's trade policy towards Japan suddenly had to cope with the effects of more aggressive US' trade policies (cf. Reaganomics and the Super 301 clause)⁹, but at the same time the Commission opted for an approach which differed from that of the US towards Japan. While the US resorted to bilateral negotiations by threatening and partly implementing protective and retaliatory actions against Japan, the EC's stance reflected the fact that quite a number of member states, most prominently the UK, found the option of becoming host to Japanese manufacturing investment and technology far more attractive than economic warfare. While all Member States wanted things to be kept on an even keel, they nevertheless did not hesitate to support the Commission in new GATT spats over liquor tax, semiconductors and automobile tax. Nevertheless, the EC's policy of containing trade problems during this period was very attentive to any possible diversion of Japanese exports from protected or threatened US markets towards the EC. The EC was also determined to counter any trade discrimination by Japan relative to the US, *inter alia* by seeking to uphold the MFN principle of the GATT. It also sought to benefit from concessions which the US had wrought bilaterally from Japan. This approach differed from the US and the EC endeavored, while defending the interests of its Member States, to avoid discrimination regarding access concessions by Japan.

Aside from the liquor tax conflict, three additional cases of trade friction called the attention of the Europeans at the end of the 1980s. The first case concerns the Japan Harbour Management Fund (JHMA) which was apparently resolved in 1992 to the satisfaction of the EU (and the US). The issue revolved around extra costs extracted for restricted stevedoring services in Japanese ports. The second case concerns the so-called Nagoya Connection Case, typified by abuses of large-scale fraudulent pork imports which were brought to an end, although illegally underpriced import competition continued intermittently for years. The third case relates to the issue of European requests for fair access to Japan's large and lucrative construction market. The problem of discriminatory public procurement has been an issue that various European countries wanted to solve.¹⁰ Given the political strength of vested interests in Japan, European industries quickly gave up after the failure of some tentative attempts to tackle the issue, and diplomatic efforts were suspended before they even started. These cases indeed are important and relevant for today's relationship between the EU and Japan, especially in the light of European approaches in the ongoing scoping exercise for an EU--Japan Economic Partnership Agreement: the EU has put government procurement in Japan on the agenda of the EPA discussions.¹¹

GAINING MOMENTUM IN THE 1990s

As the 1980s turned into the 1990s, the relations between the European Community— from November 1993 the European Union—and Japan underwent a profound change that was to define their character for years to come. The year 1990 marked the end of decades of harsh trade conflicts during the 1970s and 1980s. The 1991 Hague Declaration on relations between the EC and Japan

⁹ M. Mastanduno, 'Setting Market Access Priorities: The Use of Super 301 in US Trade with Japan', *The World Economy* 15 (6), 1992, pp. 729–54.

¹⁰ Fr. Trionfetti, 'Discriminatory Public Procurement and International Trade', *The World Economy* 23 (1), 2000, pp. 57-76.

¹¹ *Ibid.*

spells out a commitment of both sides to build a new, more cooperative relationship reaching beyond economic issues and trade disputes. The EU subsequently developed and confirmed its policy of cooperating with Japan in Commission policy papers and Communications as well as related Council Conclusions in 1992 and 1995. By opting for a cooperative, less confrontational approach, both parties made substantial efforts to develop an overall balanced relationship which combined cooperation in various areas, including in the political field, while trying to improve the skewed trade and economic relationship. Although the frustrating bilateral trade and economic situation—which, until that point, had practically defined the EC--Japan relationship—did not change fundamentally, this approach was a strategic and tactical choice on the part of the EC.

Yet, on some issues the relationship continued to include structural barriers that the European negotiators realized would never change. A case in point are the Uruguay Round negotiations.¹² Japan, the world's most dynamic economy of the time, had indeed a sacred cow: agriculture. While the reform of internal policies would have been a prerequisite for progress in trade relations, the fact was that Japan could not and would not change its agricultural policy. In the end, both the EC and Japan managed to protect the core of their respective agricultural policies. Curiously, in the case of Japan, this was made possible by the fact that Japanese consumers shun American rice as a staple. The Japanese government therefore decided to buy up the quantities that Japan was supposed to import under the minimum access commitment. Apart from rice, the Japanese government managed, just like the EC, to preserve enough border protection and domestic support to keep its agriculture afloat under the new rules. As explained by Möhler, this was possible not because of the Japanese insistence on food security, but because the eventual compromise struck by the EC and the US gave enough room for Japanese agricultural policy to adjust.

Despite the slowly unfolding economic crisis in Japan after the bursting of the Bubble in 1990, the EC deliberately shifted from earlier, more muscular policies towards non-confrontational, cooperative policies on economic and trade issues. Seeing signs during the first years of the 1990s that exports from Europe to Japan were increasing and that structural changes related to market access were forthcoming, European policymakers did not want to risk alienating a more powerful Japan. It was a time of intensifying dialogues and optimism on the European side, believing in self-generating structural economic adaptation processes in Japan and the power of objective arguments for improving EU market and investment access in Japan. The decision was therefore taken to pursue a different course to the US' aggressive bilateral market opening campaigns which, at the time, smacked of 'managed trade'. The positions on trade issues, which were not resolved at all, were subordinated to the further development of a comprehensive EU--Japan relationship. One important example of this less confrontational European approach towards Japan is to be found in the agreement between the EC and Japan to phase out restrictions on imports of Japanese cars which existed in a number of EU member states prior to 1992. This agreement became known as the *Elements of Consensus* and represents a fascinating example of the flexibility of European institutions as they adapt regulatory processes to achieve political ends within an ostensibly rigid legal framework.¹³

What followed was the beginning of a relatively quiescent time in EU--Japan relations

¹² W. Moon, 'Is Agriculture Compatible with Free Trade?', *Ecological Economics* 71, 2011, pp. 13-24.

¹³ M. Mason, 'Elements of Consensus: Europe's Response to the Japanese Automotive Challenge', *Journal of Common Market Studies* 32 (4), 1994, pp. 433-53.

(1996-2000). Indeed, this period is characterized by the consolidation of positive developments in bilateral ties along the lines set out in the Commission's March 1995 Communication *Europe and Japan: the Next Steps* (covering political and economic relations as well as cooperation in other fields). This period laid the groundwork for the realization of a more solid framework for cooperation from 2001 onwards, known as the 2001 Action Plan. While not spectacularly, EU--Japan relations improved with a steady pace across economic, political and cooperation activities. Following increased Japanese investments in the EU, motivated *inter alia* to escape anti-dumping measures, mutual economic relations expanded and trade disputes were resolved. This, in turn, gave rise to regulatory and structural reforms which were beneficial to both sides. The political dialogue improved, underpinned by reciprocal engagement in shared spheres of interests. The onset of new global challenges—e.g. climate change, food security, ageing population, drugs and organized crime—constituted an opportunity for the EU and Japan, as like-minded partners sharing the same values, to cooperate more deeply and effectively. One might, therefore, conclude that this was a period which reflected the growing maturity of EU--Japan relations and mapped out a step-by-step plan to realize greater cooperation in the future.

STRONG COMMITMENTS, BUT 'UNTAPPED POTENTIAL' IN THE 2000s

In a speech in Paris in January 2000, Japanese Foreign Minister Kōno Yōhei, known to be a reliable friend of Europe, outlined his proposal for a deepened EU--Japan partnership. This resulted in a Joint Action Plan for a 'decade of cooperation' from 2001 to 2011. This was a rather ambitious plan with multiple objectives ranging from a world free of weapons of mass destruction to intercultural dialogue, based *inter alia* on the exchanges of trainees and school twinning. No fewer than 22 different fora for sectoral dialogues were established and formalized, an edifice crowned by annual summits. As often when bilateral relations are harmonious, media interest in the EU and Japan for the 'decade of cooperation' and the state of EU--Japan relations was small compared to the earlier periods of trade frictions. In Japan, public concerns were limited to worries about the lifting of the EU arms embargo against China in 2005, while in Europe the focus was on Japanese barriers to EU investments—especially after EU Trade Commissioner Peter Mandelson raised the matter in unambiguous terms during his visit to Tokyo in 2008. Later, during 2011, cooperation on access to rare earth metals and large Bank of Japan (BoJ) purchases of Eurobonds of the European Financial Stability Facility (EFSF) triggered media interest on both sides. However, at the annual EU--Japan Summit in Tokyo in April 2010, the summit leaders (Prime Minister Yukio Hatoyama, President of the European Council Herman Van Rompuy, and President of the European Commission José Manuel Barroso, joined by the High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton and European Commissioner for Trade Karel De Gucht) declared 2010 to be the year of renewal and pledged to share best practices in reviving their economies.

Increasingly important and crucial for future progress in the relation between the EU and Japan is the role of the European parliament. Parliamentary exchanges between Japan and the EU constitute a significant aspect of the relationship and are growing in relevance. The importance of parliamentary exchanges has been increasing commensurate with the adoption of different EU treaties, especially since the entry into force of the Treaty of Lisbon on 1 December 2009. This Treaty also enlarged the competences of the European Parliament (EP), especially in the areas of

climate change and foreign and security policy. The additional competences of the EP in the decision making process of the EU now also cover international agreements. As the EP now has a decisive say in the conclusion of international agreements on trade, including services, direct investment and the protection of intellectual property rights, the EP will certainly insist on being well-informed during the negotiation process from the beginning of discussions in order to influence the negotiations in all stages and ensure conformity with the negotiation mandate. For this the EP can inform itself through its own inquiries, either by its respective committees or through its delegations for the relations with the relevant third country. The same will be true for the further deepening of EU climate policy as well as for foreign and security policies in the coming years. In this sense, the EP delegations for relations with Japan and the corresponding Japanese Diet delegations can and will grow in importance and influence. This is all the more true as parliamentarians in Japan and the EU realize more and more that third country relations are of great importance to national policies and that these relations should therefore not be left only to governments.

WITHER EU--JAPAN RELATIONS?

The *2010 Summit Declaration* called for a conscious effort of both sides to go beyond the (over)concentration on economic issues in future EU--Japan relations and widen the ambit of cooperation to include political and strategic elements. A political framework, in addition to an EPA, is crucial to this end. Bringing the EU and Japan, despite their geographical distance, closer together will require an increased level of mutual economic *and* political engagement. Success stories such as the joint engagement of the EU and ASEAN in Aceh, Japan's activities in Mindanao (the Philippines) in cooperation with the UK, and its engagement in Sri Lanka together with Norway and the EU, could point the way. Reiterer in this book identifies a number of shared interests which could provide platforms for common political and strategic actions by discussing numerous examples: the EU and Japan have a joint interest in keeping Iran a nuclear weapons free zone and to assure non-proliferation in general; the EU appreciates Japanese engagement in Africa in the TICAD process (predating the Chinese offensive to assure access to raw materials); there is a joint interest in energy security and the security of the sea lanes leading to and from Japan; both the EU and Japan have common interests in combating international terrorism as well as piracy as demonstrated by the participation of Maritime Self-Defence Force ships in anti-piracy actions off the coast of Somalia; and both partners engaged in disaster relief operations in Haiti and Sumatra. Finally, Reiterer refers to the case of Afghanistan, where the Japanese role in training Afghan police forces (including financial support) contributes to the reconciliation process, and to the case of Pakistan, which clearly reveals that the EU and Japan share a common interest in spreading the rule of law and ensuring that states do not fail politically and economically. Cooperation between the EU and Japan is therefore not only important for both parties: it has a far-reaching impact on regional constructs in Asia and other parts of the world.

CONCLUSION

The timing for this presentation assessing past EU--Japan economic relations is most serendipitous. At their Summit in May 2011, the EU and Japan committed themselves to launch parallel

negotiations on 1) a deep and comprehensive Free Trade Agreement and Economic Partnership Agreement (FTA/EPA), addressing the whole range of issues of shared interest to both sides including tariffs, non-tariff measures, services, investment, intellectual property rights, competition and public procurement; and 2) a binding political agreement, covering political, global and other forms of cooperation in an all-inclusive manner. The former reflects Japan's emphatic wish to negotiate a comprehensive FTA/EPA in the face of EU reluctance, while the latter represents a continuation of the 2001 Action Plan which, given its non-binding nature, has proven to be rather unsatisfactory. The commitment to explore a remodeling of the past relationship has to be seen also against the background of the current rise of Asian economies, in particular China, and the increasingly closer relationship which the EU is developing with Asian nations.