



Prospects for the EU-Japan Strategic Partnership

a Global Multi-Level and Swot Analysis

César de Prado

Florence & Tokyo, December 2014



Notices

Acknowledgements: This paper was in part produced with a Minerva Fellowship from the EU-Japan Centre for Industrial Cooperation.¹ It fits a broader work on Europe-Asia relations undertaken by the author in 2014 at the European University Institute's Global Governance Programme (Europe in the World Research Strand)².

Sources: the author has approached governments, think tanks, businesses and academia. Most reports, articles and books are available online (all links were working in mid-December 2014), the rest in libraries. Participation in conferences and similar events provided much timely data and insights. The EU-Japan Centre kindly organised on 11 September 2014 a presentation of the preliminary work that attracted a broad audience. My thanks also to the many experts interviewed, mainly in Florence and Tokyo, for clarifying current developments and suggesting paths for the future. Questionnaires emailed to businesses proved fruitless.

Disclaimers: The author believes that this paper is reliable and reasonably clear. However, no independent verification has yet been made, and it is subject to correction, completion and amendment without notice. Neither the EU-Japan Centre for Industrial Cooperation, nor any person acting on its behalf is responsible for any consequences that may arise from the use by third parties, whether individuals or organisations, of the information contained in this paper.

Copyrights: Belong to the EU-Japan Centre for the work on EU-Japan relations produced during the Minerva Fellowship. Yet, the author retains the copyright of the rest. Reproduction is authorised except for commercial purposes, provided the source is acknowledged.

Author's contact: Cesar.dePrado@eui.eu

¹ www.EU-Japan.eu

² <http://GlobalGovernanceProgramme.EUI.eu/research-areas/europe-in-the-world/>

Executive Summary

Great powers are searching for grand strategies to better navigate in our world. The European Union (EU) and Japan are developing compatible strategic capabilities, which facilitate greater bilateral, regional and global collaboration. This paper helps in that task with a broad situation analysis and a summary SWOT exercise.

The relationship between the EU and Japan began in 1959 and has gone through distinct phases. During three decades, there was a turbulent trade interdependence but very weak political links. The nineties and 2000s experienced normalisation of economic relations and an attempt to set structures to promote comprehensive relations. In the current decade, diplomats are negotiating a strategic partnership agreement (SPA) with the expectation to enhance relations mainly in economic (FTA/EPA), but also in political, security, and social spheres.

Besides public officials, business actors have been relevant in the governance of this relationship. The EU-Japan Centre for Industrial Cooperation helps businesses, including the EU-Japan Business Round Table, and it has grown to promote general policies and innovation. The European Parliament is becoming more involved in the partnership negotiations, so it has the potential to catalyse the interest of many constituencies.

Many issues at different levels may affect the outcome of the strategic agreement under negotiation between the EU and Japan. Key European, Japanese, regional and global factors are selected from the statements elaborated for the regular EU-Japan summits.

The Eurozone seems viable despite the recurring economic crises affecting mainly the periphery, but many EU member states still need help with their structural reforms, which are now coming in the form of *Dragbinomics*, the European version of Japan's *Abenomics*. The new leaders of European institutions seem more globally concerned, but the political situation in many member states remains worrisome. Externally, the conflicts in Ukraine and the Middle East make it difficult a European and Transatlantic rebalancing to Asia.

Meanwhile, Japan is addressing over two decades of stagnation as well as increasing regional insecurity. *Abenomics* has used bold monetary and fiscal tools, and intends to lower corporate taxes, liberalise agriculture and services, promote FDI in selected areas, and entice more women and foreign skilled workers to join the labour force, especially needed since Tokyo will host the summer Olympic games in 2020. However, deflation still looms, and entrenched interests may dilute plans for structural reforms. New institutions and legal reinterpretations are helping a gradual military raise, with unclear regional consequences.

Finally, there are novel risks and opportunities as China adjusts to the global order led by the US. Liberal powers are advancing, inter alia, Transatlantic, Transpacific, Asian and global economic negotiations. Meanwhile, a rising China is promoting initiatives with other BRICS, and with many other partners of its new silk roads.

The clearest internal and external factors of the above global multi-level analysis are visualised in a SWOT (Strength, Weakness, Opportunities, Threats) matrix.

This paper concludes with several recommendations to advance towards a genuine EU and Japan strategic partnership, summarised as follows:

- Enhance strategic visioning exercises.
- Create a networked Centre for Strategic Governance to fulfil a broader range of activities.
- Focus on people beyond business and parliaments, including think tanks, academia, schools and media.

Contents

Notices	2
Executive Summary	3
Contents	4
List of Tables	5
DEVELOPING GRAND STRATEGIES	6
In the EU	7
In Japan	10
OVERVIEW OF EU-JAPAN RELATIONS	12
From Trade to Politics	13
Launching Partnership Negotiations	15
Factors of Common Interest: Bilateral, Regional and Global	16
Data on Economic Trends	17
BILATERAL GOVERNANCE	20
Political Leaders	20
Business	21
Parliaments	24
BILATERAL NEGOTIATIONS	26
On Strategic Partnership (SPA)	26
On Economic Partnership (FTA/EPA)	29
EUROPEAN UNION FACTORS	33
The EU in Crisis	33
Politics & Draghinomics	35
JAPAN'S FACTORS	39
Japan in Crisis	39
Political Balances	40
Abenomics	41
GLOBAL TRADE INITIATIVES	44
The WTO	44
Liberal Initiatives	47
The Rise of China	54
Unsure Prospects	56
GLOBAL POWER DYNAMICS	58
Transatlantic Pivoting	59
Beyond the US-Japan Alliance in Asia	61
MOVING FORWARD	63
A Summary SWOT	64
Some Recommendations	66

List of Tables

Table 1 – Phases in EU-Japan relations	12
Table 2 – Trade in goods (bilateral / Total Extra-EU27)	18
Table 3 – Trade in Services (billion euros)	18
Table 4 – FDI (billion euro)	18
Table 5 – FDI flows (% of gross fixed capital formation)	19
Table 6 – FDI stocks (% of gross domestic product)	19
Table 7 – EU's institutional leadership transition	37
Table 8 – Powers' percentage of trade within PTAs	57
Table 9 – Effects of main PTAs on major powers	57
Table 10 – Key issues summarised in a SWOT matrix	65

DEVELOPING GRAND STRATEGIES

Grand strategies are complex global maps that leaders increasingly use to better navigate our turbulent times:

A grand strategy provides a vision of international relations, defines the nature of potential threats and risks, and identifies the options and instruments that the polity considers the most efficient for dealing with these security challenges. Policy makers use this as a basis to define priorities and criteria for policy choices in order to integrate all the elements of power and balance ends and means.³

Since the 1990s, the US government produces a global overview of current developments and probable futures with ideas for each incoming presidency.⁴ The last one presented a multi-polar, multi-actor world facing many challenging trends and potential game changers:

The NIC foresees a transformed world, in which “no country – whether the US, China, or any other large country – will be a hegemonic power.” This reflects four “megatrends”: individual empowerment and the growth of a global middle class; diffusion of power from states to informal networks and coalitions; demographic changes, owing to urbanization, migration, and aging; and increased demand for food, water, and energy. ... The NIC also identifies what it calls potential “game-changers”: the global economy, intrastate conflict, new technologies, and America’s future role.⁵

This type of forward-looking visioning exercise is based on the input of many public agencies and private actors, at home and abroad, so it can claim a degree of comprehensiveness.⁶ However, in recent years a politically polarised US seems unable to agree on a grand strategy:

In recent months, President Obama has been accused of pursuing a somewhat listless foreign policy. Despite his first-term accomplishments in killing Osama bin Laden, decimating much of the rest of Al Qaeda’s leadership in Pakistan, tightening international sanctions on Iran, and rebalancing U.S. military and foreign policy towards Asia, the narrative has become less laudatory. The tragic Syrian civil war, ongoing troubles with Vladimir Putin over Ukraine, and uncertainty over whether Iran will agree to a reasonable compromise on its nuclear program all contribute. But the larger issue is that Republicans, still angry that Mr. Obama criticized President Bush so harshly back in 2007 and

³ Marise Cremona and Pascal Vennesson. 2010. “Facing Global Challenges: The Lisbon Treaty and the New European Union’s External Relations”. *EUI Review*, Spring. Fiesole: European University Institute, p. 14, www.eui.eu/Documents/Research/EUIPublications/EUIReview/EUIReviewSpring2010.pdf

⁴ National Intelligence Council. 2012. *Global Trends 2030: Alternative Worlds*. Washington DC, www.dni.gov/files/documents/GlobalTrends_2030.pdf

⁵ Joseph Nye. 2013. “The World in 2030,” 9 January, www.project-syndicate.org/commentary/the-international-order-in-20-years-by-joseph-s--nye

⁶ Daniel Drezner. 2009. “The Challenging Future of Strategic Planning”, *The Fletcher Forum of World Affairs*, 33: 1, 13-26, <http://danieldrezner.com/policy/strategicplanning.pdf>

2008 and that he prematurely declared an end to a war on terror that is in fact far from over, sense that the president has lost his commitment to a strong national-security policy—and feel that other countries around the world have noticed too.⁷

China's elites are strongly debating its overall fit in the world, but without expectations of producing soon a grand strategy:

Whether China has any such strategy today is open to debate. On the one hand, over the last three decades or so, its foreign and defense policies have been remarkably consistent and reasonably well coordinated with the country's domestic priorities. On the other hand, the Chinese government has yet to disclose any document that comprehensively expounds the country's strategic goals and the ways to achieve them. For both policy analysts in China and China watcher abroad, China's grand strategy is a field still to be plowed. ... [F]or the central government, sovereignty, security and development all continue to be China's main goals. ... How other countries respond to the emergence of China as a global power will also have a great impact on China's internal development and external behaviour.⁸

Meanwhile, Russia links to China, India and other rising Asian economies but its strategy is not longer global but regional, often ruthless but uncertain.⁹ The demand for strategic visioning is particularly visible around a rising China. For instance, the World Economic Forum has a Centre for Global Strategies that recently produced work for some Central Asian countries and Mongolia.¹⁰

In this fluid context, both the EU and Japan are taking bold steps to advance their global strategic capacities. As the EU increasingly focuses on Asia, and Japan increasingly links with Europe, it is crucial to analyse the possibilities of further converging their strategic visions, and of enticing other great powers struggling to advance their grand strategies to keep moving towards EU-Japan values like peaceful development.

In the EU

Europeanism and Transatlanticism have long been the two main strategic thinking approaches in Europe, while neutralism and superpower visions remain

⁷ Michael O'Hanlon. 2014. "How to Solve Obama's Grand Strategy Dilemma". *Brookings – The National Interest*, 23 May, www.brookings.edu/research/opinions/2014/05/23-obama-grand-strategy-dilemma-ohanlon

⁸ Jisi Wang. 2011. "China's Search for a Grand Strategy". *Foreign Affairs*. March/April, pp. 68-79, http://english.pku.edu.cn/News_Events/News/Media/7743.htm

⁹ Frederick Starr and Svante Cornell, eds. 2014. *Putin's Grand Strategy: The Eurasian Union and Its Discontents*. Stockholm: Central Asia - Caucus Institute, Silk Road Studies Program, www.isdp.eu/images/stories/isdp-main-pdf/2014-starr-cornell-putins-grand-strategy-the-urasian-union-and-its-discontents.pdf

¹⁰ www.weforum.org/community/strategic-foresight

secondary.¹¹ This assessment is being rebalanced, albeit very slowly, as the EU advances various strategies, strategic partnerships and global visioning exercises.¹²

The European Commission has in the past two decades produced strategy papers aiming at economic growth and employment (in particular the Lisbon strategy of 2000, followed up by the current Europe 2020)¹³, and to different parts of the world, including Asia since 1994¹⁴. Their vision is constrained by the power of the Commission, which is high in trade and aid, but still quite limited in most other issues. Thus, strategies emanating from the European Council and its secretariat are grander as they also try to catalyse the prerogatives of the EU member states.

The EU's first Security Strategy was produced in 2003 by the Council on the wake of the US reaction to the attacks of 9-11. In it, the EU highlighted the overriding importance of the transatlantic relationship, the need to increase links with Russia, and the need to work with partners, including Japan:

There are few if any problems we can deal with on our own. ... International cooperation is a necessity. We need to pursue our objectives both through multilateral cooperation in international organisations and through partnerships with key actors. ... In particular, we should look to develop strategic partnerships, with Japan, China, Canada and India as well as with all those who share our goals and values, and are prepared to act in their support.¹⁵

This process was open ended but substantially unchanged. In 2007, the European Council reviewed the implementation of the 2003 Solana security strategy but it did not decide to upgrade it. Since then, the EU has signed more strategic partnerships, and now it is even considering one with a regional process in Southeast Asia: in 2014 the European Council, “agreed to work towards the upgrading of the partnership to a strategic one [with ASEAN] and tasked their senior officials to develop a roadmap for this goal”.¹⁶

¹¹ Pascal Venesson. 2010. “Competing visions for the European Union grand strategy”. *European Foreign Affairs Review*, 15: 57-75.

¹² Antonio Missiroli. 2013. “Strategic foresight - and the EU”, Brief 13. Paris: European Union Institute for Security Studies. February, www.iss.europa.eu/publications/detail/article/strategic-foresight-and-the-eu/

¹³ <http://ec.europa.eu/europe2020/>

¹⁴ http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/asia/r14202_en.htm

¹⁵ European Union. 2003. “A Secure Europe in a better world: European Security Strategy”. Brussels, 12 December, p. 13-14, www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf; the strategy and related documents are available at www.eeas.europa.eu/csdp/about-csdp/european-security-strategy/

¹⁶ http://eeas.europa.eu/statements/2014/140723_03_en.pdf

The meaning of strategic partner was at first left rather broad and unclear, so there have been some attempts to clarify it. The European Council of September 2010, reflecting the capabilities of the EU institutions, still focused on economic matters:

The European Union's strategic partnerships with key players in the world provide a useful instrument for pursuing European objectives and interests. This will only work if these partnerships are two-way streets based on mutual interests and benefits and on the recognition that all actors have rights as well as duties. The full participation of emerging economies in the international system should allow its benefits to be spread in a balanced manner and its responsibilities to be shared evenly. In this context, enhancing trade with strategic partners constitutes a crucial objective, contributing to economic recovery and job creation. We must take concrete steps to secure ambitious Free Trade Agreements, secure greater market access for European businesses and deepen regulatory cooperation with major trade partners.¹⁷

Yet, "[i]n practice, a strategic partner seemed to be anyone beyond the ambit of "Europe's neighbourhood" who is too big to ignore"¹⁸, with whom the EU engages in many rather technical dialogues.¹⁹

From 2010 until 2014 the European Strategy and Policy Analysis System (ESPAS) was an inter-institutional initiative of the Commission, the Council, the Parliament and the External Action Service that also involved experts from think-tanks.²⁰ Its main goals were to produce long-term situation reports on global governance, security, economy and society useful for the 2014–19 institutional cycle, and to start developing a durable joint foresight capacity. ESPAS also set up an open repository of reports and strategies from public and private actors from around the world.²¹

ESPAS has been complemented by other initiatives. For instance, in 2013 the foreign ministries and some think-tanks in Sweden, Poland, Italy and Spain produced a European Global Strategy to which I contributed a paper with a focus on Asia.²²

¹⁷ European Council. 16 September 2010, Conclusions p. 2, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/116547.pdf

¹⁸ Nick Witney et al. 2014. "Rebooting EU Foreign Policy". European Council on Foreign Relations, p. 3, [www.ecfr.eu/page/-/ECFR114_EU_BRIEF_SinglePages_\(1\).pdf](http://www.ecfr.eu/page/-/ECFR114_EU_BRIEF_SinglePages_(1).pdf)

¹⁹ Emmanuel Vivet et Victoire de Lalande. 2014. "EU Strategic partnerships: Shallow political summits, active technical dialogues? Manuscript. Paris: Institute for Research and Education on Negotiation (IRENE), www.ecfr.eu/page/-/EU_SP_word_article_June_2014_with_annexes_V4-1.pdf

²⁰ <http://europa.eu/espas/>

²¹ <http://europa.eu/espas/orbis/>

²² César de Prado. 2013. "Towards Stronger EU-Asia relations", European Global Strategy 3/2013. Madrid: Real Instituto Elcano, www.europeanglobalstrategy.com/nyheter/publications/towards-stronger-eu-asia-relations, and www.realinstitutoelcano.org/wps/portal/rielcano/EstrategiaGlobalEuropea/

The EU has yet to set up a permanent, coherent structure to distil and profit from the many public and private actors contributing towards more global strategic thinking. The new EU leadership that took office in late 2014 seemed ready to start addressing the problem. President JUNCKER

has already expressed a desire to integrate incoming High Representative Federica Mogherini into the Commission's policy program ... particularly after Mogherini completes here European Council-mandated assessment of the global strategic landscape.²³

In Japan

In Japan, expert councils and working groups (*shingikai*) traditionally gave a variety of inputs to Ministries, the Prime Minister's office and to local governments.²⁴ Their implicit strategic goal since the 1950s was to help the country thrive under its alliance with the United States, which recently risked drifting as power evolved globally.²⁵ So more was needed to galvanise public and semi-public institutions into a more clear and fitting strategy:

In these times of great upheaval, Japan urgently needs to create and announce a grand strategy. Such a vision would help it to navigate between two kinds of difficulties for the next decades. One concerns the rapidly shifting configuration of forces and ideas in its vicinity and beyond. The other revolves around the robust mindset of its citizens that yearns for stability and continuity. The disharmony that exists between them is painfully clear. In developing a grand strategy, Japan would need to focus on its traditional strength while embracing changing global ideas and forces.²⁶

Eventually, the same academic advanced a framework to develop greater internal and external capacities, balancing security with political institutions and economic development:

Japanese foreign policy should combine the three foreign policy lines: classical realism for hedging and counterbalancing; transformative pragmatism for increasing internal vigour, efficiency and democracy; and liberal internationalism for contributing to the enhanced capability of multilateral institutions. This combination should be put into practice with keen observation, sound judgement and flexible action.²⁷

²³ Ana Palacio. 2014. "Closing Europe's Strategy Gap". 7 October, www.project-syndicate.org/commentary/a-european-strategic-vision-for-ukraine-by-ana-palacio-2014-10

²⁴ <https://ja.wikipedia.org/wiki/審議会> (in Japanese).

²⁵ Richard Armitage and Joseph Nye. 2012. *The US-Japan Alliance; anchoring stability in Asia*. Washington, DC: Centre for Strategic and International Studies, <http://csis.org/publication/us-japan-alliance-1>

²⁶ Takashi Inoguchi. 2009. "Japan Desperately Needs Grand Strategy". *PacNet* 23, (25 March). Honolulu, Hawaii: Pacific Forum CSIS, www.csis.org/media/csis/pubs/pac0923.pdf

²⁷ Takashi Inoguchi. 2014. "A call for a new Japanese foreign policy: the dilemmas of a stakeholder state". *International Affairs* 90: 4, 943–958, <http://onlinelibrary.wiley.com/doi/10.1111/1468-2346.12149/abstract>

Just a year ago, Japan finally produced a first overarching strategic exercise raising the profile of global economics and security. In December 2013, the government of Shinzo ABE issued the first National Security Strategy to focus the activities of the new National Security Council that gathered under the Prime Minister's office experts from various ministries:

It outlines Japan's intentions and the approach it will take, as a major and responsible player, to contribute more proactively to the peace, stability and prosperity of the international community, while firmly maintaining its fundamental peaceful orientation.²⁸

Surprisingly, Japan's security upgrading has advanced more quickly than bold economic policies:

From a security point of view "Japan is back." As promised, the LDP government under Prime Minister Shinzo Abe is mobilizing Japan's economic and diplomatic resources to recover lost ground and better advance its national interests in an increasingly unforgiving international environment. In addition to the much touted "three arrows" of "Abenomics," which appear to have registered (limited) success, it is on the security front that Japan has been particularly active...²⁹

Japan's new strategy indeed takes a global look. It is particularly enhancing its alliance with the US, and promoting strategic partnerships with countries within a broad-based "arc of freedom of prosperity", having already agreed on one with Australia, and now working with India and with the EU.

Japan details a broad interest in collaborating with Europe's and transatlantic's large array of soft power assets, the EU being just one of them:

Europe has the influence to formulate international public opinions, the capacity to develop norms in major international frameworks and a large economy. Japan and European countries, especially the United Kingdom, France, Germany, Italy, Spain and Poland, share universal values of freedom, democracy, respect for fundamental human rights and the rule of law, and principles such as market economy. They are partners for Japan, which together take a leading role in ensuring the peace, stability and prosperity of the international community. At a time when the power balance of the international community is changing, in order to establish an international order based on universal values and rules, to effectively address global challenges, and to accomplish Japan's initiatives for a peaceful and prosperous international community, Japan will further strengthen its relations with

²⁸ Primer Minister of Japan and his Cabinet. 2014. *National Security Strategy*. Tokyo, p. 1, http://japan.kantei.go.jp/96_abe/documents/2013/___icsFiles/afieldfile/2013/12/18/NSS.pdf;

Shinichi Kitaoka. 2013. "Japan's New National Security Strategy in the Making." Speech at the East West Centre, Honolulu, Hawaii, 23 September, <http://vimeo.com/77183187>

²⁹ Thomas Wilkins. 2014. "Japan's Grand Strategy and New Strategic Partnerships", The Tokyo Foundation, 28 May, www.tokyofoundation.org/en/articles/2014/japan-grand-strategy

Europe, including cooperation with the European Union (EU), the North Atlantic Treaty Organization (NATO), and the Organization for Security and Co-operation in Europe (OSCE). Japan has contributed to the democratization of East European countries and Baltic countries, and will engage in strengthening relations with them, as well as the Caucasus countries...³⁰

The obvious question now to ask is if Japan can be a real strategic partner for Europe, and the EU for Japan. Let's review the situation.

OVERVIEW OF EU-JAPAN RELATIONS

Official EC/EU-Japan relations began in 1959 when Japan's Prime Minister visited Brussels and accredited Japan's ambassador to Belgium also as Japan's ambassador to the then three European Communities (EC), which became an enhanced European Union (EU) in the early nineties.³¹ Since then one may analyse the bilateral relationship in phases as summarised in the following table:

Table 1 – Phases in EU-Japan relations

PHASE	YEARS	NATURE
1	1960s-1980s	Economic frictions. Testing political links.
2	1990s-2000s	Economic dialogues but losing interest. Setting political links.
3	Early 2010s	Political and diplomatic activity trying to enhance all relations.
4	Late 2010s	<i>Optimistic expectation</i> : comprehensive relations within strategic and economic partnerships.

Source: Author's own compilation.

The first phase was focused on trade issues, and only in the second phase there were relevant political relations. As the relationship has generally been relatively weak, the EU and Japan are in the current decade negotiating parallel, but very linked, strategic and economic partnership agreements with the hope of enhancing relations in a comprehensive manner. The current political and diplomatic phase might end in a few years if substantial agreements are signed by all required actors in the EU and Japan.

³⁰ Government of Japan. 2014. *National Security Strategy*. Tokyo, p. 30.

³¹ Both the EU and Japan have created official, bilingual websites with basic facts on the bilateral relationship. The English versions are generally used in this paper, but Japan's Japanese versions are sometimes more informative:

The EU Delegation in Japan: www.EUinJapan.jp/en/relation/chronology/

Japan's Ministry of Foreign Affairs: www.mofa.go.jp/region/europe/eu/

A fourth, fuller phase would start later this decade as the agreements take effect and show increasing benefits. These benefits should be seen in a plurality of indicators, bilateral, regional and global. One could expect more political dialogues, bilaterally and with our respective strategic partners; some cooperation in promoting peace and stability; more bilateral trade in goods, services, and investment, while regulatory environments become more similar and economic negotiations advance in different global geometries; and more people-to-people links, including academics, parliamentarians and youths.

From Trade to Politics

The first phase of EC/EU-Japan relations, lasting from the 1960s until the 1980s, was dominated by economic frictions while political relations emerged very slowly. The 1960s saw the beginning of trade frictions while Japan started political dialogues with the main EC member states individually and through its membership in the OECD. The 1970s saw even stronger trade frictions while there was no European Political Cooperation with Japan. Yet, the Trilateral Commission, involving experts from the US, Western Europe and Japan, started in 1973 as a high-level track-2 process for the then created G-7 group of most industrialised countries. In 1974, the European Commission opened a delegation in Tokyo, and in 1979 the Commission set up the Executive Training Programme in Japan to train Europeans in Japanese language, culture and business. The 1980s saw an increasing political activity, and in 1984 the EC and Japan held their first ministerial meeting. In 1987, the European Commission and Japan's then Ministry of International Trade and Industry (MITI), now Ministry of Economy, Trade and Industry (METI), jointly set up the EU-Japan Centre for Industrial Cooperation in Tokyo to help diffuse trade frictions.

The second phase of EU-Japan relations roughly spanned two decades, the 1990s and 2000s, and was characterised by a normalisation of economic dialogues, but also by a largely failed attempt to substantiate visionary political links. The first bilateral summit was held in The Hague (Netherlands) in 1991 and leaders signed a **joint declaration** to enhance overall relations.³² Yet, one of the drafters of the

³² Joint Declaration on Relations between The European Community and its Member States and Japan, http://eeas.europa.eu/japan/docs/joint_pol_decl_en.pdf, and www.mofa.go.jp/region/europe/eu/overview/declar.html

declaration soon indicated that the EU and Japan lacked both political structures and relative lack of interest in each other to sustain new activities:³³

On the Japanese side this may be ascribed to resentment in the early days of the relationship at being subjected to a never-ending barrage of demands and recriminations on trade questions; to failure to comprehend the very nature of the EC/EU, which fell outside all the categories discussed in their handbooks of international law; and above all to obsession with the United States, not surprisingly given that country's unique position - only the second invader in the long history of Japan, and the first successful one.

On the European side, the relative lack of interest can be mainly ascribed to the incomplete state of institution-building within the Union. Unlike the Member States, the Union lacks the capacity to formulate a comprehensive foreign policy. Unlike the Union, the Member States lack the weight to endow their policies with significant diplomatic effect. And the Union itself has been preoccupied in recent years with other more pressing concerns - the developments in Eastern Europe, the collapse of the Soviet Union and the conflict in former Yugoslavia.

Paradoxically, the failure on both sides to concentrate adequately on maintaining the relationship has been aggravated by the relative success in eliminating long-standing trade disputes. Market access negotiations were never agreeable occasions, but they had this merit, that at least the two sides spoke to each other while they were going on.

One result of the relative lack of interest in the relationship is that inessential, even peripheral issues can come to dominate it.

Since 1991, leaders from the EU and Japan hold annual summits to impulse a growing bilateral official activity. In the 10th summit, held in Brussels in 2001, both sides adopted a comprehensive EU-Japan **action plan** with many goals within four major objectives: promoting peace and security; strengthening the economic and trade partnership within globalisation dynamics; coping with global and societal challenges; and bringing together people and cultures.³⁴ Here again, the few officials, think-tank analysts, academics that have paid attention to the bilateral relation share the view that despite much diplomatic ceremony, most goals of the action plan have not substantially been achieved.³⁵ In sum, both the Declaration and the Action Plan lacked strategic focus and capacity to motivate potential actors beyond a few diplomats, businesspersons and academics.

³³ Simon Nuttall. 1998. "Europe and Japan", in Hanns Maull, Gerald Segal and Jusuf Wanandi, eds. *Europe and the Asia-Pacific*. London: Routledge, pp. 175-6.

³⁴ "Shaping Our Common Future. An Action Plan for EU-Japan Cooperation", http://eeas.europa.eu/japan/docs/actionplan2001_en.pdf, and www.mofa.go.jp/region/europe/eu/summit/action0112.html

³⁵ Takako Ueta & Éric Remacle, eds. 2008. *Tokyo-Brussels Partnership: security, development and knowledge-based society*. New York: Peter Lang; Julie Gilson. 2011. "Drifting Apart? Japan-EU Relations", in Alisa Gaunder ed., *Routledge Handbook of Japanese Politics*. London: Routledge; Joern Keck, Dimitri Vanoverbeke, and Franz Waldenberger. 2013. *EU-Japan Relations, 1970-2012: From Confrontation to Global Partnership*. London: Routledge.

According to the European Strategic Partnership Observatory maintained by the think-tank FRIDE, there were 34 EU-Japan **Dialogues** in 2013.³⁶ Some are broad, but most are focused on security, economics, social, or environmental issues. Many dialogues naturally have a strict bilateral focus, but others pay attention to various parts of the world (Central Asia, East Asia, etc.), and one specifically involves the US. Yet, the online list does not provide many links to follow-up, leading one to think that several of those dialogues are not very substantial. Or even dead, as is the case of the civil society dialogue, that only met a couple of times in the early 2010s and produced a cacophony.³⁷ This gloomy diagnosis does not apply to the economic dialogues that have been active since the 1990s, include those on trade, (de-)regulation, industrial policy and cooperation, employment and social issues, as well as and a high-level forum on science and technology.

Launching Partnership Negotiations

Thus, EU-Japan relations have since 2009 entered a new phase to attempt reversing course by promoting not only economic relations, but also political, security, intellectual and social links. It is characterised by high-level political contacts and, especially, diplomatic activity.³⁸

In the 18th EU-Japan summit held in Prague in 2009 both sides clearly expressed interest in advancing relations, but concentrating in economic cooperation, as expressed in paragraph 34 of their summit declaration:

Summit leaders reaffirmed the crucial importance of the EU-Japan bilateral economic and commercial relationship for their own and global prosperity. Both sides underlined the need to fulfil their responsibility in leading the international efforts for maintaining open economy, especially in light of the current global economic situation. Both sides expressed the intention to cooperate in strengthening the integration of their economies with a view to better exploiting the full potential of their economic relationship. Towards this end, in order to tackle trade restrictive barriers, to increase market access opportunities and to create the best possible environment to promote bilateral direct investment flows, they underlined the importance of putting focus on a few specific non-tariff issues which are expected to bring concrete outcomes, in a mutually beneficial way and in a short period, utilising existing mechanisms such as the High-Level Consultation, the bilateral Regulatory Reform Dialogue, the High-Level Trade Dialogue, the Industrial Policy and Industrial Cooperation

³⁶ <http://StrategicPartnerships.eu/pays/eu-japan/>

³⁷ Interview with EU officials, September 2014.

³⁸ Various Authors. 2012. "Special Issue: EU–Japan relations", *Japan Forum*, 24:3, www.tandfonline.com/toc/rjfo20/24/3#.VFEIWOfcy4

Dialogue and the other bilateral dialogues more effectively. They will review the progress made at the latest at the Summit in 2010.³⁹

In the 19th Summit held in Tokyo in April 2010, leaders set up a high-level group with the task of identifying options for the comprehensive strengthening of all aspects of Japan-EU relations and defining the framework for implementing it.⁴⁰

In May 2011, in the 20th summit held in Brussels, EU and Japanese leaders did not attempt to upgrade the detailed Action Plan of 2001, but decided to prepare the stage to negotiate parallel Strategic and Economic Partnership Agreements:

Nobody expected the statement issued at the conclusion of the EU–Japan summit meeting in May 2011. After two decades during which the relationship between the EU and Japan had been governed by detailed documents (such as the Hague Declaration and the Action Plan) on how dialogue should be conducted and cooperation improved, we were left without any new ten-year plan for the overall relationship. Instead a statement was issued in which the leaders of both the EU and Japan agreed to start the process of parallel negotiations towards: 1) a deep and comprehensive free trade agreement (FTA)/economic partnership agreement (EPA); and 2) a binding agreement covering political, global and other sectoral cooperation in a comprehensive manner, and which would underpin their shared commitment to fundamental values and principles. Reactions to the EU–Japan summit statement have been mixed.⁴¹

Factors of Common Interest: Bilateral, Regional and Global

Periodic EU-Japan summits still produce long statements that provide an indication of the many factors, internal and external, that may affect the bilateral relationship. The joint press statement of the 22nd summit held in Brussels on 7 May 2014 was titled “The EU and Japan Acting together for Global Peace and Prosperity”.⁴² It first highlighted common values, and then elaborated on 32 issues, drawing cooperation or common positions, structured in three main parts: bilateral relations, global issues, and regional issues.

The issues commented under **bilateral** relations were:

- The SPA and FTA/EPA negotiations.
- The economic situation globally, in the EU and in Japan.
- The important role of the Business Round Table (BRT).

³⁹ 18th EU-Japan Summit. 4 May 2009. Prague Joint Press Statement, http://eeas.europa.eu/japan/docs/2009_summit_js_en.pdf, and www.mofa.go.jp/region/europe/eu/summit/joint0905.html

⁴⁰ Axel Berkofsky. 2012. “EU-Japan relations from 2001 to today: achievements, failures and prospects”. *Japan Forum*, 24:3, 275-279.

⁴¹ Marie Söderberg. 2012. “Introduction: where is the EU–Japan relationship heading?” *Japan Forum*, 24:3, 249.

⁴² www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/142462.pdf

- The importance of the Asia-Europe Meeting (ASEM) as a forum for dialogue and cooperation.
- “Satisfaction” with the progress on bilateral sectoral dialogue or cooperation in info-communication technologies, transport, customs authorities, competition law enforcement, industry, energy, food regulations, people-to-people exchanges and higher education, and a broad range of other sectors and areas including macroeconomic policies, financial regulation, employment, the environment and fisheries.

The **regional** issues presented in the declaration were mainly security concerns in Eastern Europe, the broader Middle East and East Asia, focusing on the situation in Ukraine, Tunisia, Libya, Israel, Palestine, Iran, Syria, Afghanistan, Myanmar and North Korea. The declaration expressed just a general hope to enhance cooperation:

We seek close cooperation on a range of salient foreign and security policy issues which are of strategic importance to the EU and Japan in our respective neighbourhoods and beyond, and where there is a considerable convergence of views.

The range of **global** issues of the declaration is large, especially in the economy, but also in environment and energy, peace and security, education, science and technology. Social concerns were perfunctorily included.

For this paper, I have **selected** the following issues as potentially affecting the outcome of the EU-Japan strategic negotiations. Firstly, the growing bilateral governance in which the activity of diplomats and other officials is complemented by the input of business and parliaments. Afterwards, the EU’s political transition and efforts to address its institutional transition, economic crises, and conflicts in its neighbourhood. Then, Japan’s shaky political stability, *Abenomics*, and external projection. Later, the competition between multilateral, bilateral and plurilateral trade negotiations shaping the next phase of global interactions. Finally, although not explicitly mentioned in the summit declaration, it is key to monitor the global geopolitical landscape in which a rising China partially cooperates with the liberal US-led system, but partially balances softly with other partners in new structures.

Data on Economic Trends

The EU and Japan remain major trade partners. However, when analysing their trade’s main elements we see a mixed evolution. The relative decline in the main type of trade, of **goods**, is very clear in table 2. Data may not be very precise as exports from affiliates in third countries may not be properly accounted for. But

the trend is quite worrisome. Moreover, trade is not very diversified: imports from Japan to the EU are dominated by machinery and transport equipment and chemical products, while EU exports to Japan are dominated by machinery and transport equipment, chemical products and agricultural products.

Table 2 – Trade in goods (bilateral / Total Extra-EU27)

Flows	2000	2012
EU→Japan	5.4%	3.3%
EU←Japan	9.3%	3.6%

Source: Eurostat News Release 18 November 2013, Stat/13/170, http://europa.eu/rapid/press-release_STAT-13-170_en.htm. And European Commission Directorate General for Trade, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113403.pdf

Data on trade in **services** is not very homogenised. What is available for the EU and Japan suggest that it is about half of trade in goods. Flows from the EU to Japan are increasing, but flows from Japan to the EU remain almost flat. The flows are not very diversified as it is mainly composed of transportation, travel, finance and information services.

Table 3 – Trade in Services (billion euros)

Flows	2010	2012
EU→JP	19,8	24,2
EU←JP	15,3	15,6

Source: Eurostat News Release 18 November 2013, Stat/13/170, http://europa.eu/rapid/press-release_STAT-13-170_en.htm

Large shares of Foreign Direct Investment (**FDI**) usually suggest strong interdependence among economies. Data for EU-Japan is less readily available, but we have a mixed picture in which Japanese FDI in the EU is much larger than EU investment in Japan.⁴³

Table 4 – FDI (billion euro)

Stocks	2010	2012
EU→JP	?	?
EU←JP	?	150

Source: Eurostat News Release 18 November 2013, Stat/13/170, http://europa.eu/rapid/press-release_STAT-13-170_en.htm

⁴³ <http://eu-japan.com/investment/japan-to-europe/>; and www.eurotechnology.com/2014/01/29/eu-japan-investment-stock/; and <http://www.eubusinessinjapan.eu/library/publication/report-fdi-data-between-eu-japan-2008-2012/>; from http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database

The level of inward FDI in Japan will likely remain very low during this decade. Since the early 2000s, Japan is trying to raise stocks to 5% of Japanese GDP. So far, progress towards this target has been slow and Merger and Acquisition activity remains limited.

Yet, Japan's outward FDI has grown substantially since the 1984 Plaza Accord increased the value of the yen. Japan first invested in industrial Asia and the US, and since the 1990s in Europe. Japanese FDI is welcome in the EU as it plays a constructive role in Europe's economy, but FDI into Japan is very small and often limited to greenfield projects. This is a reflection of EU member states consistently ranking much higher than Japan in economic openness and open markets indexes like the ICC Open Markets Index⁴⁴ and the OECD FDI Regulatory Restrictiveness Index⁴⁵. The overall difference in FDI activity in the EU and Japan are visible in these two tables, the first focusing on flows, and the second on stocks:

Table 5 – FDI flows (% of gross fixed capital formation)

	2005-07	2011	2012	2013
Japan				
Inward	0.6	-0.1	0.1	0.2
Outward	5.7	8.9	9.7	13.1
EU				
Inward	20.7	14.9	7.2	7.8
Outward	26.9	17.7	7.9	8.0

Source: World Investment Report unctad.org/fdstatistics

Table 6 – FDI stocks (% of gross domestic product)

	1995	2011	2012	2013
Japan				
Inward	0.6	3.8	3.4	3.5
Outward	4.5	16.3	17.7	20.3
EU				
Inward	13.0	42.3	48.1	49.4
Outward	16.3	53.8	59.0	61.1

Source: World Investment Report, www.unctad.org/fdstatistics

⁴⁴ www.iccwbo.org/Global-influence/G20/Reports-and-Products/Open-Markets-Index

⁴⁵ www.oecd.org/investment/fdiindex.htm

BILATERAL GOVERNANCE

Political Leaders

The EC launched in May 2011 a “Scoping Exercise for EU-Japan FTA” to have a picture of the issues it wanted to negotiate with Japan. Upon its completion in a year, in November 2012 the Foreign Affairs Council (Trade) agreed to give the Commission the mandates to start the economic partnership negotiations, as it promised to deliver very good economic results, and as included a special safeguard clause:⁴⁶

I am delighted that the Council has today decided to give the Commission 'the green light' to start trade negotiations with Japan. We now have a clear mandate – confirmed by all the Member States - which sets out Europe's objectives. Just to give you several examples: The mandate sets out a strict and clear parallelism between the elimination of our duties and non-Tariff Barriers in Japan. 'Like for like' if you will; There's a safeguard clause to protect sensitive European sectors; We explicitly reserve ourselves the right 'to pull the plug' on the negotiations after one year if Japan does not live up to its commitments on removing non-tariff barriers.

Furthermore, in the last few months, we tested just how serious our Japanese partners were about opening up their market. I am happy to tell you that we got results – including the removal of a number of key non-tariff barriers up front – such as granting liquor licenses to European operators.

Such moves have given us all the reassurance we could reasonably expect before a formal negotiation is opened. And no other partner has ever gone as far as Japan before we sat down at the negotiation table together.

So, let us not be anxious. Europe is not naïve. Europe is going into these negotiations with our 'eyes wide open'.

This is an important political decision - and necessary - if we want to foster growth and jobs in Europe. Forecasts for the successful conclusion of an ambitious free trade agreement with Japan show it could deliver around 0.8% of GDP growth for the EU and more than 400,000 jobs. That's exactly what our economies need. And we will do it by ensuring we open up the Japanese market and by ensuring we give European business real opportunities in Japan.⁴⁷

On 25 March 2013 Presidents VAN ROMPUY and BARROSO from the EU side, and Prime Minister ABE from the Japan side officially launched the parallel negotiations, which still proceed in separate rounds meeting in Brussels and Tokyo every few months. In 2014, the EU decided to allow further negotiations without activating the

⁴⁶ Council of the European Union. Press Release, 3170th Council Meeting. Brussels, 31 May 2012, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/130564.pdf

⁴⁷ EU-Japan Free Trade Agreement: Commissioner De Gucht welcomes Member States' green light to start negotiations: Remarks by EU Trade Commissioner Karel De Gucht following the Foreign Affairs Council (Trade). Brussels, 29 November 2012, http://europa.eu/rapid/press-release_MEMO-12-930_en.htm

safeguard clause, as EU industries were generally in favour of a positive review from the part of the European Commission.

More recently, Japan's Prime Minister Shinzo Abe is particularly active in catalysing support from the EU, hoping that Japan becomes a powerful partner of Europe in "diplomacy that takes a panoramic perspective of the world map".⁴⁸ In 2004, he visited Europe three times.

From 29 April to 7 May he travelled to Germany, the United Kingdom, Portugal, France, Spain and Belgium (to NATO and the EU) to enhance relations in many fronts (security, political, economic, socio-cultural), not only bilaterally, but also aiming to jointly address issues around the world.⁴⁹ For instance, Japan would help Portuguese and Spanish firms in Asia, while Portugal would help Japanese firms in Portuguese-speaking countries, and Spain would be doing likewise in Latin America.

In June 2014, Abe travelled to Brussels for the G7 summit and held a short, informal summit with the EU, just before travelling to Rome and the Vatican. For Italy held the EU Presidency in the second semester of 2014, and Abe was planning his meetings with several European premiers at the Asia-Europe Summit (ASEM) held in Milan in mid-October. Meanwhile, Abe and the Pope touched a range of topics as Japan and the Holy See claim to share a culture of pacifism, diplomacy and multilateralism, and it is envisioned that Francis I, who visited Korea in August 2014⁵⁰, may visit other Asian countries including Japan in 2015.⁵¹

Business

The EU-Japan Centre for Industrial Cooperation is a unique venture between the European Commission (Directorate General for Enterprises and Industry) and the Japanese Government (Ministry of Economy, Trade and Industry, METI).⁵² It was established in 1987 with the aim of decreasing trade frictions, including the growing trade deficit against the EU. Although the Centre is a non-profit, public joint venture, its governance structure has opened to non-public actors. It is

⁴⁸ www.mofa.go.jp/erp/ep/page22e_000373.html

⁴⁹ European Institute of Asian Studies. 18 May 2014. "Shinzo Abe Seeks to Strengthen Ties with NATO, EU". Brussels, www.eias.org/asian-news-outlook/shinzo-abe-seeks-strengthen-ties-nato-eu

⁵⁰ www.osservatoreromano.va/en/news/heart-asia

⁵¹ Kagefumi Ueno. 21 June 2014. "Japan, Vatican meet as 'like-minded powers'". The Japan News. Tokyo; and Sandro Magister. 4 July 2014. "The Third Asian Voyage for Francis Will Be to Japan", <http://chiesa.espresso.repubblica.it/articolo/1350841?eng=y>

⁵² www.EU-Japan.eu

headed by two general managers, one European and one Japanese, which manage over 30 staff members in the head office in Tokyo and at a secondary office in Brussels. But it has an external supervisory board largely composed of business people, and it is in constant search for strategic opportunities, which is possible because of increasing external funding, and by reaching outside Japan to promote intra-Asian cooperation of business-support centres.

The Centre's growing number of activities are categorised into three broad pillars. The foundational one is the provision of services to businesses (mainly SMEs), from basic and focused information, onsite and online, to a growing array of training, consulting, and networking possibilities: thousands of executives and young experts have benefitted from programs ranging from a week to several months. The second pillar is the provision of broader policy advice, with various activities and publications with analysis and recommendations on international trade, macroeconomic and sectorial issues, energy being a strong point. This pillar includes serving the EU-Japan Business Round Table presented below. It also produces reports like this one, and promotes technical internships. The third pillar is the most recent and aims to promote innovation, from basic science to business research cooperation (info-communication services have been a particular strong point), mainly by promoting links between the EU Research Framework Programs (since mid-2014 Horizon 2020) and programs sponsored by the Japanese government.

The EU-Japan Business Round Table (BRT) is a structure in which about 50 leading companies are encouraged to regularly exchange views on their trade environment.⁵³ Former European Commission Vice-President Etienne DAVIGNON started it in 1996, and in 1999 the BRT absorbed a smaller bilateral dialogue and became what it is still known today. The EU-Japan Centre for Industrial Cooperation is in charge of the logistics of all annual, preparatory and extraordinary meetings of the BRT. Members elaborate and present yearly to authorities sets of joint recommendations to enhance economic relations. The BRT held its 16th annual meeting in Tokyo in April 2014 under the theme of "EU-Japan Cooperation; New Opportunities for Global Growth." The agenda consisted of three main "topical sessions": the Free Trade Agreement / Economic Partnership Agreement (FTA/EPA), which they supported warmly; the New Industrial revolution/Sustainability, which they reviewed in detail for some sectors; and BRT's

⁵³ www.eu-japan-brt.eu

future role, which they discussed to make it more relevant to the current global business panorama. Finally, there were joint sessions with the authorities. The meeting gathered many participants from industry and government. It was co-chaired by the chairman of the Keidanren, Japan's powerful Business Federation, and by the President and CEO of Airbus, a paradigmatic European firm. BRT membership is not static, and represents a variety of firms and pressure groups producing recommendations through broad working parties that tackle a diversity of issues, including general macroeconomic ones, and specific sectors within life sciences and health, info-communications, finance, energy and environment.

Another active actor in the EPA negotiations is the **European Business Council (EBC)**, representing European companies with a presence in Japan. Its membership is open, but it is controlled by 16 member chambers from the EU and other countries like Switzerland and Norway. Its structure includes a President, a Secretary-General, a treasurer and a Board of Directors. It has about 30 committees, and new ones may be created as long as a group of companies organise themselves and pay a fee; actually, in June 2014 a new committee on financial reporting was created. Its yearly reports on the Japanese Business Environment present many sectorial analyses and the issues of concern for active committees. Sometimes these are tariff-related but more often they are internal regulations like local product standards, which differ from EU and global ones, or general investment policies like high taxes on M&A profits. Some concerns are long-standing, some are new, some older ones evolve, and others do not advance. The EBC has contributed to the EPA in various ways. Of particular relevance was its input to the earlier mentioned "Scoping Exercise for EU-Japan FTA" that took place in 2011-12:

This is a message from the EBC to all Chamber Member Companies: The 20th EU-Japan Summit was held on 28 May in Brussels. In his press statement, European Commission Trade Commissioner Karel De Gucht said, "We have agreed to seek mandates for negotiations and in parallel to conduct a scoping exercise to define the parameters of an ambitious comprehensive agreement that tackles all trade barriers – from procurement and investment barriers to tariffs and non-tariff measures. Such an EU-Japan FTA would enhance opportunities for trade and business on both sides, and release untapped potential in our economic relationship." The EBC has been asked by the EU Delegation to work closely with Commission experts during this FTA scoping exercise and formal negotiations to submit key issues and the relevant technical details for potential inclusion in the agreement.

This is an historic moment in time for the EBC. Our role has now changed dramatically from one of merely advocating an EU-Japan agreement to one of actually contributing to the scoping exercise and providing essential technical

input into the formal negotiations when they start. Given our structure, function, location, experience and accrued knowledge, the EBC with its network of national chamber stakeholders, is one of the best placed organisations to do so.⁵⁴

Meanwhile, the lobbying activities of Japanese firms in the EU are largely handled by the **Japan Business Council in Europe (JBCE)**. Established in 1999, its membership now consists of about 70 leading multinational corporations that are active across a wide range of sectors beyond automotive, electronics, and chemical manufacturing. As the EBC does for Japan, the JBCE monitors the EU, arranges meetings and produces position papers. For instance, its 2014 report includes two large sections, one with recommendations to both the EU and Japan, and the other with recommendations on the policy of the EU.⁵⁵ The JBCE governance structure is similar to the EBC's, with a President, a Secretary-General, a treasurer and a Board of Directors. Yet, its sectorial structure is more complex than that of the EBC's, as it has committees generally sub-divided into working groups and, sometimes, into issue-groups. The JBCE suggested in the BRT meeting of 2014 that the BRT becomes a more strategic forum organised under a "Europe and Japan 2050 concept".

These and other business organisations actively interact with the hope of promoting greater economic relations. For instance, Keidanren started in the 2000s promoting the idea of advancing a FTA with the EU focusing on tariff reduction, but in 2008 the EBC proposed a comprehensive EU-Japan Economic Integration Agreement (EIA).⁵⁶ Largely based on that input, the European Commission eventually proposed advancing four pillars, which became the base of negotiations of the FTA/EPA.

Parliaments

During the first two phases of EU-Japan relations the input of businesses was important. But a broader array of constituencies was lacking, which surely contributed to the limited advancement of the grandiose political declaration, action plan, and regular summit statements. Yet, as the current goal of the SPA/EPA negotiations is to reverse the trend and enhance all kinds of relations, it is crucial to catalyse many types of actors and commit them to sustain links.

⁵⁴ EBC Scoping Exercise for EU-Japan FTA, Norwegian Chamber of Commerce in Japan, www.nccj.or.jp/?p=925

⁵⁵ Japan Business Council in Europe. 3 April 2014. *2014 Report of the JBCE*. Brussels, www.JBCE.org

⁵⁶ Interview with the EBC, September 2014.

Parliaments are becoming a key platform in that goal, especially on the EU side as the European Parliament provides input from the earliest stages of the negotiations. The Treaty of Lisbon that entered into force in December 2009 empowered the **European Parliament** on trade and investment policy matters. It must be informed of negotiations, and makes sure that they respect non-commercial aspects, in particular, the promotion of human rights, sustainable development, fair trade, democratic accountability, and transparency.

In April 2014, after a process of scrutiny and discussion, including a public hearing, the European Parliament adopted a resolution urging progress in the EU-Japan partnership negotiations: 490 votes were in favour, only 18 against, and 62 were abstentions.⁵⁷ The resolution contained many recommendations to the other EU institutions to conclude substantial agreements to deepen political, economic and cultural relations. Much emphasis was put on promoting peace and addressing security issues, at home and globally. The Parliament suggested supporting global organisations and processes (UN, Bretton Woods, G-8, G-20), as well as regional dialogues in East Asia, and bilateral relations in Northeast Asia. It also called to negotiate a provision in the agreement including reciprocal conditionality and political clauses on human rights and democracy. The Parliament also requested seeking stronger cooperation on many sectors, from energy and other resources, communications, science and technology, culture, academia, youth, people-to-people and sports exchanges. To be sure that it remained open, it called for the strengthening of the provisions on parliamentary cooperation as well as providing binding deadlines for the implementation of the agreements and to provide for monitoring mechanisms, including regular reports to Parliament.

The European Parliament wanted negotiators to pay special attention to economic issues:

... to commit, as the leading donors of global development assistance, to closer cooperation and coordination in developing policies and interventions in pursuit of the Millennium Development Goals, where the aspect of human security is essential; ... to facilitate jointly collaboration in other multilateral arena, such as the UN, the G8, the G20, the World Trade Organisation (WTO) and the International Monetary Fund (IMF); to make joint efforts to promote global economic recovery, job creation and multilateral trade rules; ...; to address health as a particular area of cooperation and a joint endeavour by

⁵⁷ European Parliament resolution of 17 April 2014 containing the European Parliament's recommendation to the Council, the Commission and the European External Action Service on the negotiations of the EU-Japan Strategic Partnership agreement (2014/2021(INI)), www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2014-0455; and www.europarl.europa.eu/oeil/popups/summary.do?id=1347120&t=d&l=en (summary).

establishing means to combine and exchange the best available medical knowledge, including biotechnology, in order to respond to the health challenges of aging societies.

In the EU, all member states would also need to ratify the eventual EU-Japan FTA/EPA and the SPA. In addition, in Japan, the **Diet** must ratify them in due course.⁵⁸ So far, the Diet does not seem to have been particularly concerned with the potential EU-Japan agreements, which contrasts with transpacific negotiations. Yet, during the negotiations with the EU, Japan's ministries consult with stakeholders, especially auto manufacturers and other groups willing to increase sectoral exports to the EU. If and when negotiations advanced substantially and appeared about to conclude, representatives of industry, services, local governments, academia and other constituencies would be convened by the Japanese government and Diet in working groups to start drafting legal changes. Even foreigners may be allowed to participate, formally in secondary positions, but in reality with some degree of influence as the *shingikais* strive to reach consensus.⁵⁹

The European Parliament and the Japanese Diet provide input to the new phase of the bilateral relationship through their regular **interparliamentary** meetings. These began in 1979, the year that the European Parliament was properly formed.⁶⁰ Nowadays, delegations of about 12 members from each side, representing the political diversity of the legislature, meet yearly alternating Europe and Japan to gain understanding on each other, help advance policies, and often also to interact with business people and political groups. Their understanding seems excellent as parliamentarians share values in most issues, except in the death penalty still applied in Japan.

BILATERAL NEGOTIATIONS

On Strategic Partnership (SPA)

The **terminology** of the agreements being negotiated can be confusing. Although the EU and Japan are negotiating a Strategic Partnership Agreement, actually not

⁵⁸ Japan's Cabinet Legislation Bureau publishes the information on Japan's law-making process at www.clb.go.jp/law/process.html (Japanese).

⁵⁹ Interview with Japanese official, September 2014.

⁶⁰ Georg Jarzembowski. 2013. "The history and role of EU-Japan parliamentary exchanges", in Joern Keck, Dimitri Vanoverbeke, Franz Waldenberger. *EU-Japan Relations, 1970-2012: From Confrontation to Global Partnership*. London: Routledge, pp. 282-289.

all EU member states use the term “strategic” when referring to the SPA negotiations. Moreover, although the EU and Japan considered themselves strategic partners and they reflected it in summit statements during most of the 2000s, that terminology did not appear in the summit statements of 2010 and 2011.⁶¹ In the EU, negotiators sometimes use the less suggestive term Framework Agreements to a variety of political agreements with economic components.

The term strategic still is often narrowed to **security**. In the security field, the bilateral SPA negotiations aims to go beyond recurrent declarations of common positions on peace promotion, including disarmament and nuclear non-proliferation, to increase strategic dialogues and to promote industrial cooperation. There is already some operational cooperation, but progress in the negotiations will probably reflect the limited military capacities that both the EU and Japan have. That may change if they manage to agree politically at the highest levels, bilaterally, and in the concert of great powers.

[W]hat may boost EU-Japan relations is the shifting balance of world power, mainly caused by the rise of Asia and the growing interdependence between the two regions.⁶²

As the EU and Japan can boast much more soft power than military assets, the SPA negotiations are framed under a discussion on the possibility of advancing common **values**. The 2014 summit declaration expressed optimistically:

Our strong, longstanding and dynamic relationship is founded on the common values of democracy, the rule of law, human rights, and shared principles such as open markets and a rules-based international system.⁶³

Negotiations to enhance cooperation in promoting basic **human rights** seem to be proceeding smoothly. They build on a history of collaboration: the EU supported Japan’s accession to the International Criminal Court in 2007, both partners had agreed on mutual legal assistance in criminal matters since 2010, and have regularly co-sponsored declarations to support human rights in the framework of the United Nations. In 2014, partly due to EU pressure, Japan signed the

⁶¹ Michael Reiterer. 2013. “The EU-Japan relationship in Asia”, in Joern Keck, Dimitri Vanoverbeke, Franz Waldenberger, eds. *EU-Japan Relations, 1970-2012: From Confrontation to Global Partnership*. London: Routledge, pp. 293-328.

⁶² Michito Tsuruoka. 2013. “The EU and Japan: making the most of each other”. *Issue Alert* 36. Paris: European Union Institute for Security Studies, www.iss.europa.eu/publications/detail/article/the-eu-and-japan-making-the-most-of-each-other/

⁶³ *ibid*

convention on child abduction.⁶⁴ Yet, the EU would still like Japan to abolish the death penalty, and to secure better treatment in Japanese prisons.⁶⁵

Legal enforceability is always a problem in any kind of international agreement even among like-minded partners. To prepare the resolution mentioned earlier, the EU Parliament held in January 2014 a public hearing convened by the European People's Party in which both the EU and Japan's high-level representatives emphasized the expected bonds to sustain the SPA.⁶⁶ In particular, Japan's Ambassador to the EU expressed optimistically that

this agreement is going to provide a solid, legal foundation for our relationship in a most comprehensive manner. In a sense, it could be seen as a fundamental treaty between the two. Our long running relationship is already broad and deep across government, private, educational and other spheres. However, we never had a fundamental, legal document to support these broad engagements and this is what the SPA will achieve. The SPA will be an agreement of substance. It is a strategic agreement that encompasses the entire relationship and promotes substantial cooperation on a wide variety of areas. This will be a beacon that sheds light on the path of our partnership for years to come. This is different from other agreements in terms of coverage, depth and the level of commitment to the responsibilities that global players should carry.⁶⁷

The fact that a Japanese ambassador presented the issue of legality in such a way adds hope that the Japanese government would eventually abide by the letter and spirit of a ratified SPA. In any case, the EU, as prompted by the European Parliament, might ensure that the agreement includes a clause on suspending, or even terminating, the SPA in case that commonly declared values are not respected.

That would not be necessary if there were a real convergence of values, which is not very clear.⁶⁸

In the last decade, the Japanese government has increasingly emphasized the importance of values and norms in its diplomacy. At the same time, both the EU and Japan have been leading advocates of international law and multilateralism, while striving to promote democracy, human rights and the rule of law. Thus, the Cold War 'trilateralism', which was the core of the

⁶⁴ https://en.wikipedia.org/wiki/Hague_Convention_on_the_Civil_Aspects_of_International_Child_Abu

⁶⁵ www.euinjapan.jp/en/world/human/penalty/

⁶⁶ www.eppgroup.eu/event/EPP-Group-Hearing-on-EU-Japan-Strategic-Partnership-Agreement

⁶⁷ Japan's Embassy to the EU: www.eu.emb-japan.go.jp/pdfs%20and%20docs/Ambassador%20Shiojiri%20speech%20on%20SPA_WEBSITE.pdf. He added that the SPA should be based on three pillars: 1) shared values (rules of law, human rights); 2) peace and security around the world; 3) broad-based sectorial cooperation: including people-to-people, education, R&D, environment, human security, nuclear non-proliferation, energy, etc.

⁶⁸ Yuichi Hosoya. 2012. "The evolution of the EU-Japan relationship: towards a 'normative partnership'?", *Japan Forum*, 24:3, 317-337.

Western Alliance, has been transformed into the post-Cold War 'normative partnership'. It is argued that the importance of EU-Japan relations can be appropriately understood in this light.

But can Japan really be an indispensable normative partner of the EU? It should also be noted that many frictions exist between the two parties on how to realize these norms in international society. While it is relatively easy to draft joint declarations in which the sharing of norms is mentioned, reaching concrete agreements on how to implement them can be more agonizing and frustrating. Differing positions on the universal abolition of the death penalty is one such example. In this article, it will be argued that the Japanese government has put more emphasis on norms in its diplomacy over the last decade. Due to this fact, the EU and the North Atlantic Treaty Organization (NATO) have become important normative partners for Japan.⁶⁹

Nevertheless, geopolitics is affecting the equation and may induce convergence in values:

A normative partnership between Japan and the EU is still premature, and needs the accumulation of further practical cooperation. On several issues, such as the abolition of the death penalty, Japan and the EU think differently, and their interpretations of human rights are not the same. So it might be possible to argue that Japan's normative turn is just a rhetorical one.

However, recent serious normative tensions between China and the EU make it necessary for Brussels to reconsider its Asia strategy. At the same time, Japan needs more cooperation from the EU to strengthen peace and stability in East Asia. International order has to be firmly based upon basic liberal values such as democracy, human rights, liberty, and the rule of law. As Japan and the EU have many norms in common, they should cooperate to create a stable and prosperous East Asian order by consolidating these common norms.⁷⁰

On Economic Partnership (FTA/EPA)

As in the case of the SPA, the terminology of the EU-Japan economic negotiations can be confusing. The full, preliminary denomination is Free Trade Area / Economic Partnership Agreement (FTA/EPA). The EU traditionally uses FTA for its economic agreements with developed partners, while EPA is used with developing countries. But the EU often uses other vague terms: a High-Quality FTA has many market-access issues; in an FTA+, the "+" refers to non-strictly commercial issues like academic or scientific exchanges often dealt within more strategic negotiations; similarly, Deep and Comprehensive FTAs include many trade and non-trade issues that also require the approval of member states. Meanwhile, the term EPA is used by Japan for its recent agreements as they include many issues: trade in goods, trade in services, direct investment, government procurement, intellectual

⁶⁹ Ibid, p. 320.

⁷⁰ Ibid, p. 332.

property, competition laws and business environment, and, with developing countries, cooperation arrangements.

Some online sources give us an idea of the progress of the negotiations on the EU-Japan FTA/EPA. The portals of the European Commission and Japan's Ministry of Foreign Affairs usually provide aseptic summaries.⁷¹ In addition, a repository of news on the bilateral negotiation is found in the portal of an advocacy NGO based in Germany but with global links.⁷² However, for analysis it is useful to look for experts that follow the negotiations.⁷³

The FTA/EPA agenda for negotiation was divided into 14 areas:

1. General Principles
2. Trade in Goods
3. TBT (Technical Barriers to Trade)/NTMs
4. Rules of Origin
5. Customs Procedures and Trade Facilitation
6. SPS (Sanitary & Phytosanitary Measures)
7. Trade in Services
8. Investment
9. Government Procurement
10. Intellectual Property Rights
11. Competition Policy
12. Dispute Settlement
13. Trade and Sustainable Growth
14. Other Issues

The main interests of Japan seemed in 2014 to be the following:

- Overall, opening further the EU's automobile sector, which accounts for a large share of Japan's exports to the EU, by eliminating remaining tariffs, and by softening some technical regulations and standards on safety and environment.
- Then, lowering tariffs and softening regulations in electronics, chemicals and other industries in which Japanese firms are very competitive.
- Gaining greater access to trade in services and investment in the EU.

⁷¹ <http://ec.europa.eu/trade/policy/countries-and-regions/countries/japan/>, and www.mofa.go.jp/files/000013835.pdf

⁷² <http://bilaterals.org/?-EU-Japan->

⁷³ Yorizumi Watanabe. 2013. "The Japan-EU EPA and Its Potential Contribution to the 21st Century Trade Rules", Brookings Seminar on Mega Trade Agreements. Washington DC, 16 December, www.brookings.edu/events/2013/12/16-japan-us-mega-trade-agreements

- Public Procurement issues in railway equipment like clarifying types of companies (public vs. private), and safety clauses.

A key factor sparking the EU-Japan FTA/EPA negotiations was Japan's reaction to the signing in 2009 of a deep and comprehensive FTA between the EU and **South Korea**. It is significant because it gives the EU the possibility to thrive in a traditionally difficult Asian market, and to South Korea the possibility to export more cars, electronics, and other industries, potentially putting at a disadvantage Japanese exporters:

By the end of the transitional periods, virtually all import duties between the two economies will have been removed. Exporters and importers of all industrial products and almost all agricultural products can trade without duties. Additionally, the FTA breaks new ground in tackling significant non-tariff barriers to trade, with a specific focus on the automotive, pharmaceuticals, medical devices and electronics sectors. The Agreement also creates new opportunities for market access in services and investments, and lead to major advances in areas such as intellectual property, government procurement and competition policy. The Agreement is also the EU's first trade deal with an Asian country. The Agreement is expected not only to boost bilateral trade and economic growth in both Korea and the EU, and is heralded as an agreement that generates mutual economic benefits and offer enormous business opportunities both to Korea and the EU. The Agreement also has a wider impact in Asia and elsewhere by signalling the EU's openness to doing business with third countries and its commitment to free trade.⁷⁴

Meanwhile, the main immediate interests of the EU appear to be passenger cars and agri-food. The special treatment of very small or light (*kei*) cars produced in Japan affects the exports of European small cars.⁷⁵ The EU also wants lower tariffs and softer regulations in some drinks and primary foods, as well as in processed food. More generally, EU wishes that Japan advanced an ambitious, comprehensive trade and investment liberalisation across primary, industrial and service sectors, including government procurement. The EU argues in particular that Japan should lower its many non-tariff barriers by bringing regulations to international standards when possible.

⁷⁴ Chang-sang Cho. 2014. "Korea – EU FTA: a blueprint for co-prosperity", in Axel Marx et al., eds. 2014. *EU-Korea Relations in a Changing World*. Leuven Centre for Global Governance Studies, pp. 11-40, <http://ghum.kuleuven.be/ggs/publications/books/rapport-ggs-eu-korea-relations-in-a-changing-world.pdf>; the agreement is available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2011.127.01.0001.01.ENG

⁷⁵ Sofia Olsson de Koning. 2014. "Free Trade Agreement EU-Japan: Automotive Perspective", Presentation at the EU-Japan Conference, Brussels, 17 Nov, www.eu-japan.eu/sites/eu-japan.eu/files/seminars/2014-11-17event/deKoning.pdf

To better understand the EU goals we may also look into high-quality FTA that it signed with **Singapore** in September 2013 (except Chapter 9 on investment protection).⁷⁶ Its chapter 2 focuses on national treatment and market access for goods and has three sub-chapters on the elimination of custom duties, on motor vehicles and parts thereof, and on pharmaceutical products and medical devices. Afterwards, it has three chapters on non-tariff barriers: chapter 4 on technical barriers to trade; chapter 5 on sanitary and phytosanitary measures; and chapter 7 on non-tariff barriers to trade and investment in renewable energy generation. Chapter 8 details commitments in services and in electronic commerce. Chapter 9 deals with the globally difficult issue of investment protection, whose negotiations exceptionally lasted another year. The following three chapters focus on three other thorny issues: government procurement, intellectual property, and competition and related matters. Chapter 13 then moves to the broad emerging issue of trade and sustainable development. Final chapters are procedural but also far reaching: Chapter 14 aims at transparency, chapters 15 and 16 set effective dispute settlement and mediation mechanisms, and chapter 17 details institutional, general and final provisions. In sum, this type of FTAs are very comprehensive and easily upgradeable, that is, there is no need to restart the whole process when both sides decide to move even beyond.

So far, there seems to be preliminary EU-Japan agreements on lowering tariffs that are not very controversial, like specialty foods and alcoholic drinks.⁷⁷ There is also an increasing entente on railways to advance in a special chapter the procurement needs of public and private companies involved, as well as the joint interest in exploring third markets.⁷⁸

Yet, the more difficult issues are dealt in later negotiations and progress is not all assured. For instance, the December 2014 negotiations stalled over EU access to Japan's gas and electricity markets.⁷⁹

Health is perhaps the set of industries and service sectors most often raised as having great possibilities for cooperation. That is clear as some EU member states

⁷⁶ European Commission Directorate-General for Trade, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=961>

⁷⁷ Interviews with EU and Japanese officials, September 2014.

⁷⁸ <http://bilaterals.org/?eu-to-exempt-jr-companies-from>. And Messerlin, Patrick. 2014. "Railways derailing EU-Japan talks?", Euractiv, 19 September, www.euractiv.com/sections/transport/railways-derailing-eu-japan-talks-308414

⁷⁹ www.bilaterals.org/?fta-talks-stall-over-european

and, especially, Japan are aging societies in which the elderly have much disposable income they want to use to live a bit longer, a bit healthier.⁸⁰

EUROPEAN UNION FACTORS

There are many factors in the EU potentially affecting, positively or negatively, the future of the EU-Japan relationship. The economic and political ones have been catalysed by the recurring financial crises that have hit the Eurozone since 2007.

The EU in Crisis

The reconstruction of Western Europe after WWII led to an unprecedented peace and prosperity in which many people increasingly identified. This growing regional governance system is still centred on the European Union (EU) that has several institutions mainly in Brussels, but also in Luxembourg and Strasbourg. There are other important European processes outside the EU, including the Council of Europe based in Strasbourg and dealing with issues like democracy and media freedom, the Schengen space for mobility, and the security-focused North Atlantic Treaty Organisation (NATO) with a secretariat in Brussels.

The EU is actually quite flexible. It accommodates both exceptions to its agreements, the UK being a country that often opts-out. In addition, it allows cooperation among smaller groups of member states, like in the case of the Eurozone in which still only 18 EU member states fully participate (19 as Lithuania joins in January 2015).

The EU is the richest and most integrated area in the world, but its prospects have suddenly decreased since the “Lehmann shock” of September 2008 in New York created a series of transnational chain reactions that in Europe induced a general banking crisis that increased sovereign risks in weaker countries that used to receive cheap capital since the euro generally lowered interest rates. While many banks have been bailed-out and restructured, average growth is still very low, public and private debt remains high in many countries, stock markets keep suffering panics, and unemployment remains very high, especially among youths in Southern and Eastern Europe.⁸¹

⁸⁰ www.eesc.europa.eu/?i=portal.en.events-and-activities-ageing-business-europe-japan

⁸¹ Eurozone data: www.ecb.europa.eu/stats/keyind/html/sdds.en.html;

There were other economic reasons behind the crisis. Countries in the European periphery were accumulating high debts and did not seem competitive enough by Germany and other austere countries. The Eurozone is far from being what economists call an “optimum currency area” in which no longer exchange rate fluctuations, but movements of capital and labour, offset asymmetric shocks derived from internal productivity differentials. Labour is not very mobile across EU member states. And capital transfers depend on Germany and other austere member states, and on institutions like the European Commission and the European Central Bank that take arduous negotiations to agree on rescue packages and on measures that entice private capital to move.

There are two main political approaches to solve the problems centred on the Eurozone crisis:

Two polar views remain prevalent. For some the system was fundamentally flawed from the start inasmuch as any monetary union requires a political union. The solution is thus “*more* Europe”. For others the system was not fundamentally flawed. A monetary union can work among sovereign states provided commitments are respected which was not to be the case. Hence the need for a “*better* Europe”. The challenges will be to explore ways combining “*better*” and “*more*” Europe.⁸²

However, the majority of people cannot understand complex economic debates, a situation that may not reach working solutions and even risks giving rise to populist backlashes:

The stimulus-versus-austerity debate is an old one. In the 1970s and 1980s, the United States regularly called on Germany and Japan to act as locomotives for the global economy. But, until recently, the divergences were viewed in terms of interests, not “philosophies”. Americans wanted additional demand for their goods and higher prices, while the Germans and Japanese defended their export industries. ... In a sense, central banks have begun to resemble medieval philosophical faculties, with discussions addressing the issues underlying policy decisions, rather than just the policies themselves. In the ECB, for example, a debate is underway to determine under which conditions deviation from fiscal orthodoxy might be stabilizing in the long term. How that debate is resolved could lead to a new kind of international cooperation. ... Given that the solutions that emerge from their disputations and analyses will be the produce of technocratic - not democratic - processes, they are likely to trigger populist

EU data: <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>

General analysis: World Trade Organisation. 2013. *European Union Trade Policy Review, Revision*, 28 November. Geneva, www.wto.org/english/tratop_e/tpr_e/tp384_e.htm

⁸² Jean-Claude Trichet et al. 2014. “A report to the Trilateral Commission by the 2012/2014 European Group Task Force on Credible European Governance”. Washington DC, Brussels and Tokyo, www.trilateral.org

backlashes. Moreover, ... may be too complex and interlinked to function efficiently.⁸³

Politics & Draghinomics

The European Commission long used to be the main institution underpinning the European Union.⁸⁴ However, the Lisbon treaty of 2009 and the current economic crisis have affected the EU institutional balances. The treaty created the European External Action Service (EEAS), hoping to bring coherence to the EU's diplomacy and overall external projection, but it clashed with the Barroso Commission that did not like losing prerogatives. Moreover, the European Parliament used its new co-decision powers. On top of that, the European Council became an official EU institution and gained some power with the creation of a permanent EU president.

Meanwhile, the economic crisis determined the European Central Bank (ECB), an independent agency mainly focused on maintaining low inflation, to become a leader in keeping the Eurozone viable. Under its president, Mario DRAGHI, and Germany's input, the ECB has designed new monetary tools, an incipient banking union, and refinanced some member states debts under strong conditions. As the economy of the EU was not improving significantly despite years of austerity measures, in the summer of 2014 the president of the ECB announced new measures, which were inspired by Japan's *Abenomics* detailed in a later section:⁸⁵

Two years ago, Shinzo Abe's election as Japan's prime minister led to the advent of "Abenomics," a three-part plan to rescue the economy from a treadmill of stagnation and deflation. Abenomics' three components – or "arrows" – comprise massive monetary stimulus in the form of quantitative and qualitative easing (QQE), including more credit for the private sector; a short-term fiscal stimulus, followed by consolidation to reduce deficits and make public debt sustainable; and structural reforms to strengthen the supply side and potential growth.

It now appears – based on European Central Bank President Mario Draghi's recent Jackson Hole speech – that the ECB has a similar plan in store for the eurozone.⁸⁶ The first element of "Draghinomics" is an acceleration of the structural reforms needed to boost the eurozone's potential output growth. ... Draghinomics' second arrow: to reduce the drag on growth from fiscal consolidation while maintaining lower deficits and greater debt sustainability. ... The third element of Draghinomics – similar to the QQE of Abenomics – will

⁸³ Harold James. 2014. "The New Philosophers", 3 October, www.project-syndicate.org/commentary/ecb-philosophical-debates-and-economic-recovery-by-harold-james-2014-10

⁸⁴ https://en.wikipedia.org/wiki/Institutions_of_the_European_Union

⁸⁵ Nouriel Roubini. 2014. "Abenomics, European-Style", 31 August, www.project-syndicate.org/commentary/nouriel-roubini-supports-ecb-president-mario-draghi-s-plan-to-revive-eurozone-growth

⁸⁶ www.ecb.europa.eu/press/key/date/2014/html/sp140822.en.html

be quantitative and credit easing in the form of purchases of public bonds and measures to boost private-sector credit growth.

Despite those measures, the economies of the EU largely depend on politics, at home and globally. A broader assessment of the situation in 2012, four years after the first financial crisis hit Europe, suggested that the EU remained inward looking and lacking structures for leadership decision-making to address the root European problems:⁸⁷

While the world anxiously awaits the climax of the eurozone drama, its leaders' behavior resembles the political equivalent of what physicists call "Brownian motion," with officials bouncing randomly from one crucial bilateral consultation and vital European summit to the next. The impact of make-or-break declarations that are supposed to solve the monetary union's problems dissipates almost as soon as they are issued. Meanwhile, a plethora of diagnoses and prescriptions are competing for attention – and in their gloominess. But their overwhelming focus on the economics of the euro crisis is itself part of the problem because the crisis is, above all, a reflection of deep-seated weaknesses in European institutions and the fabric of European society. Otherwise, what began as a marginal debt crisis, aggravated by political indecisiveness in Greece and in the European Union as a whole, would not have grown into an existential watershed moment for the European project.

Europe is plagued by three distinct problems. First, it remains incapable of adjusting to the realities of a world whose center of gravity has irrevocably shifted eastward to the Pacific, pulling with it the attention of the United States. Second, more than ever, Europeans are looking inward, as a sense of entitlement meets pervasive skepticism – a combination that permeates to the highest echelons of the Union and EU national governments. Meanwhile, at a time when the EU's basic law, the Treaty of Lisbon, needs to be reformed, the entire Union is paralyzed by the navel-gazing attitude of a Germany beset by 90-year-old memories of the doomed Weimar Republic. Therein lies the third problem: the decision-making process that has underwritten much of the EU's construction, while highly effective during the Cold War, when the Union's institutional and legal foundations were laid, has remained largely intact, leaving Europe unable to address its current challenges. ...

From May until December 2014, there was a transition towards a new leadership, which appears more committed to address the many institutional, economic, and strategic threats by charting new strategic courses. In May 2014, there were elections to the EU Parliament.⁸⁸ Based on those elections, in the Summer Jean-Claude JUNCKER was chosen by member states as president of the Commission despite the strong opposition of the UK who disliked JUNCKER's federalist agenda and apparent lack of ambition to liberalise the internal market. Yet, he soon

⁸⁷ Ana Palacio. 2012. "Europe at Home and Abroad: The Perils of Europe's Navel Gazing." 11 January, www.project-syndicate.org/commentary/the-perils-of-europe-s-navel-gazing

⁸⁸ www.europarl.europa.eu/elections2014-results/en/election-results-2014.html

restructured the Commission to give more weight to external issues like energy and the digital agenda, and declared its interest to cooperate with the EEAS. In October, the European Parliament ratified all but one of the new Commissioners proposed by JUNCKER, as well as the incoming High Representative Federica MOGHERINI.⁸⁹ Yet, in November, investigative journalists aired his past as a tax-haven promoter in Luxembourg, which is already undermining his credibility to advance pan-European reforms.⁹⁰

Table 7 – EU’s institutional leadership transition

INSTITUTION	2009 - 2014			2014 - 2019		
	LEADER & COUNTRY	PARTY	POWER	LEADER & COUNTRY	PARTY	EXPECTATIONS
Council	V. Rompuy (Belgium)	Christian Democrat	Gained	Tusk (Poland)	Christian Democrat	Unclear
Commission	Barroso (Portugal)	Christian Democrat	Decreased	Juncker (Luxembourg)	Christian Democrat	Trying to regain
Parliament	Schultz (Germany)	Socialist	Gained	Schulz (Germany)	Socialist	Consolidating
EEAS	Ashton (UK)	Socialist	Created	Mogherini (Italy)	Socialist	Unclear
ECB	Draghi (Italy)	Technocrat	Gained	Draghi (Italy)	Technocrat	Strong

Source: Author’s own compilation

The result is a series of political, geographical and social **balances** that may allow the EU to develop a working strategic leadership:

- Compromising politicians from centre-right parties command the main posts, the centre-left also has powerful posts, extremist parties have none, and a technocrat tries to maintain balance.
- While the Commission and Parliament are headed by central Europeans, Italy heads the EEAS, and Poland, the main member state from Eastern Europe, has the main overall position.
- The European Parliament forced the appointment of more women to key positions than during the Barroso Commission.

⁸⁹ www.elections2014.eu/en/new-commission

⁹⁰ Gilles Merritt. 2014. “Juncker’s Sound of Silence”, 4 December, www.project-syndicate.org/commentary/juncker-lux-leaks-tax-rulings-by-giles-merritt-2014-12

- Germany's austerity may still predominate over costly growth measures, but there is increasing pressure to invest more in public infrastructure. Not only centre-left governments in France and Italy are arguing for that, even the conservative IMF asked in October 2014 the EU to stimulate economy with public investment.⁹¹

On the other hand, pessimists would easily identify many political **risks** emanating from member states that may affect the EU. In particular:

- Nationalisms are pressuring some EU member states. In September 2014, Scotland voted in favour of remaining within the UK, but just earlier CAMERON had felt compelled to promise general devolution in the country. In November, Catalonia held an informal consultation on independence from Spain and the tussle drags on.
- Sometimes one feels that Hungary does not feel European at all. Its Prime Minister sometimes criticises not only the EU, but also democracy in generally, and praises Russia's and China's illiberal models.⁹²
- The results of the elections to the European Parliament of May 2014 showed increasing weight of alternative parties, often extremist and populist ones that are shaking politics in several member states. The extreme right forced in late 2014 a crisis in the Swedish government a few weeks after socialists took power. The meteoric rise of the radical left in Greece and Spain may evict in 2015 the current centre-right reformist governments.
- The UK case seems to be the most difficult one to address. CAMERON had promised a referendum in 2017 to see if the people of the UK want to remain in the EU. Moreover, the United Kingdom Independence Party (UKIP) wants not only the UK to pull out of the EU, but the EU to dissolve itself. For that, it was trying to forge alliances with extremist members of the European Parliament.
- The European social model that try to have a large middle class and few excluded people is at risk, especially in countries in Southern and Eastern

⁹¹ <http://euobserver.com/news/125959>

⁹² Chris Patten. 2014. "Standing Up to Illiberalism", 15 December, www.project-syndicate.org/commentary/orban-illiberal-democracy-by-chris-patten-2014-12

Europe that have suffered the crisis the most.⁹³ In those countries, one may see recurrent protests in the streets filled with people that have lost or risk losing jobs and social services.

- The EU migratory policy is increasingly restrictive towards people coming from places in Africa, the Middle East, etc. The UK may cut rights, and even start deporting migrants that cannot fully support themselves.⁹⁴

JAPAN'S FACTORS

Japan in Crisis

From the 1950s until the 1980s, under the LDP political system, the reign of Emperor Hirohito (*Showa* era), and as junior partner to the United States in the Cold War, Japan grew demographically and became the second economy of the world (not counting yet the EU as one). Since the 1990s, with a political system in turbulence, the reign of Emperor Akihito (*Heisei* era), and the post-Cold War fluid system in which China and other Asian countries grow, Japan has stagnated demographically and economically.

Nowadays, Japan is undergoing a period of rapid political and economic changes hoping to regain its former strength. The LDP government of Prime Minister ABE is since 2013 advancing a set of comprehensive reforms affecting most aspects of the country that this paper describes in the following sections. ABE's administration used Barack OBAMA's visit in April 2014 as an opportunity to summarise Japan's early implementation of its new grand strategy, mixing economic (*Abenomics*), social and security goals.⁹⁵

Genron, a unique non-profit organisation that evaluates politicians' policy performances gave to Abe's first year policy performance 2.7 out of 5 points,⁹⁶ and

⁹³ www.falternativas.org/en/opex/actividades/seminarios/la-fundacion-alternativas-advierde-del-riesgo-de-ruptura-del-modelo-social-europeo-21160

⁹⁴ www.euractiv.com/topics/immigration-policy

⁹⁵ Abe, Shinzo. 2014. "The Second Opening of Japan", 21 April, www.project-syndicate.org/commentary/shinzo-abe-uses-barack-obama-s-visit-as-an-opportunity-to-lay-out-his-country-s-grand-strategy

⁹⁶ www.genron-npo.net/en/issues/archives/5099.html

to Abe's administration's management 2.8 points out of 5.⁹⁷ Those are much higher ratings than the ones given to prior prime ministers.

These developments will also indirectly affect the EU-Japan relationship, positively and negatively, depending on their outcome. Some economic changes look similar to developments in the EU.⁹⁸ However, in Japan, there may be unique risks and unknowns as, for instance, on 11 March 2011 Japan suffered a triple disaster (earthquake – tsunami - nuclear meltdown) for which it was not well prepared. This shocked the country and largely precipitated the return to power of the LDP. In two years, the LDP advanced very bold policies, and after amply winning a snap election in mid-December 2014, it now hopes to accelerate the pace of reforms.

Political Balances

The Liberal Democratic Party (LDP) is in coalition with Komeito, a political party depending on a powerful Buddhist sect known to promote pacifism. The coalition faces little opposition as the left-leaning Democratic Party of Japan remains very weak, and as several smaller centrist parties are still trying to organise themselves. Internally, the LDP is a system of factions that seem in balance despite regular reshuffles. Abe belongs to a faction that is relatively liberal economically and pro the US, while his secretary general belongs to another faction that is more interventionist economically and accommodating to China:

Abe plans to appoint Obuchi, former state minister in charge of the declining birthrate, to the LDP secretary general post as one of the main pillars of his Cabinet reshuffle. ... A Nukaga faction member with a long political career expressed optimism that she would accept the post. ... Abe is from an LDP faction led by Nobutaka Machimura, who took over from former Prime Minister Takeo Fukuda. The Nukaga faction is the successor to a faction led by former Prime Minister Kakuei Tanaka. Given the fierce political battles between Fukuda and Tanaka in the 1970s, many people in the political world believe relations between the two factions are often tense. Though the two factions are currently not at odds, there are rifts between them on such issues as managing the Abe administration under the initiative of the Prime Minister's Office and diplomatic policies toward China.⁹⁹

Yet, the balance across its cabinet is more precarious as there are many competing interests. In mid-2014 Abe appointed several ministers in favour of liberalising

⁹⁷ www.genron-npo.net/en/issues/archives/4977.html

⁹⁸ World Trade Organisation. 2013. *Japan Trade Policy Review, Revision*, 19 February. Geneva, www.wto.org/english/tratop_e/tp376_e.htm

"A Japan that can say 'Yes'", *East Asian Forum Quarterly*, Vol 6: 3, www.eastasiaforum.org/quarterly/

⁹⁹ The Japan News, "Aoki key to naming Obuchi to LDP post", 2 September 2014.

reforms, but soon several were forced to step down after the opposition aired minor funding scandals.¹⁰⁰ Yet, Ms Yuko OBUCHI and Ms Midori MATSUSHIMA are back in politics as they won seats in the mid-December snap election.¹⁰¹

Abenomics

To be sure, Japan remains generally rich, but as the population shrinks mid-term projections of real GDP growth remain around 1%.¹⁰² Many young women from rural areas move to cities to work in low-paid jobs instead of marrying and raising kids. The average age of farmers is over 70 years. Centenarians are the fastest-growing segment of the population. In addition, immigrants face many regulations and cultural barriers to consider coming or staying long in Japan. However, youths remain happy.¹⁰³

Japan's labour force overall remains quite productive although there are important problems difficult to resolve. Millions overwork with little compensation while millions of surplus workers cannot be laid off, even with severance pay.

Since the Tokyo Olympics of 1964, the Japanese government had been accumulating deficits, and its outstanding sovereign debt has reached about 200% of GDP in 2013. The situation seemed not as worrisome as in the case of Southern Europe because Japanese private savings were very high and could be taxed and, perhaps, put to uses that are more productive.

Abenomics is a complex set of reforms aiming to revitalise Japan within three macroeconomic pillars or "arrows" advised by Koichi HAMADA, an academic from Yale and Tokyo universities.¹⁰⁴ In June 2013 the government announced its preliminary goals, and in June 2014 it announced a much more comprehensive strategy with over 240 detailed proposals.¹⁰⁵ The fact that Tokyo will host the summer Olympic Games of 2020 is sometimes considered a "fourth arrow", as it is expected to have both trade and non-trade benefits for Japan. The paths of all these arrows flying in turbulent winds are very unpredictable. However, as in the

¹⁰⁰ <http://the-japan-news.com/news/article/0001675959>

¹⁰¹ www.japantimes.co.jp/news/2014/12/15/national/politics-diplomacy/abes-snap-election-pays-big-win/#.VI6yICcQy4

¹⁰² Japan Center for Economic Research. 2014. *The 40th Medium-Term Economic Forecast (2013-fy-2025FY)*. Tokyo, p. 5, www.jcer.or.jp/eng/economic/medium.html

¹⁰³ www.eastasiaforum.org/2014/09/17/the-fragile-happiness-of-japans-insular-youth/

¹⁰⁴ www.project-syndicate.org/columnist/koichi-hamada

¹⁰⁵ <http://japan.kantei.go.jp/ongoingtopics/abenomics.html>

case of Draghinomics, we need to be very aware of their moves to catch opportunities to enhance the EU-Japan relationship.

Abenomics' first arrow is aggressive **monetary** policy by the Bank of Japan (BoJ). Technically, it is a mix of quantitative and qualitative monetary easing, or the purchasing of private bonds to increase the monetary base in circulation. The goal is to escape deflation and to achieve a stable inflation of around 2%, which compounded with a decrease in the nominal rate would render low real interest rates and, thus, spur business investment and general consumption. As first stimuli were not delivering desired results in November 2014 the BoJ approved, with five in favour to four against, a very large additional stimulus.

The second arrow is a new **fiscal** policy whose main components are as follows:

- A gradual reduction from 35% to around 25% in the corporate income tax.
- Tax incentives to corporations investing in venture funds.
- A rise from 5% to 8% in the consumer tax in April 2014 caused the economy to contract in the second and third quarters, so the original plan to raise it again to 10% in 2015 was postponed.
- The budget for 2014 was ¥95.8 trillion with investments in infrastructures related to the recovery of the disaster areas and in preparation for the Tokyo Olympics of 2020.

Structural liberalisation

Abenomics' third arrow is the most comprehensive and difficult to achieve. Within Japan, it focuses on promoting a more liberal regulatory environment, changing corporate governance, liberalising markets like agriculture and health with very powerful vested interests, promoting human capital and innovation, and creating special economic zones. Let's see them in more detail.

General business environment and regulation

- Eliminating regulatory grey zones.
- Enhancing collaboration between the advisory councils for industrial competitiveness and for regulatory reform.
- Establishing a system of corporate field tests.

Corporate Governance

- Public and quasi-public funds would invest more productively. In particular, the Government Pension Investment Fund, holding about ¥129 trillion in assets in 2013, would buy riskier instruments than bonds, domestically and globally.
- Diversifying government procurement.
- Increasing the number of external, independent board members.

Liberalising markets

- **Agriculture:** Consolidation of farmland; reform of committees, production corporations and cooperatives; diversification of distribution channels for dairy farmers; export promotion and linking domestic and overseas value chains.
- **Health** and medical industries and services: restructuring their governance; incentives for health promotion and prevention; expansion of insurance scheme; establishment of the Japan Medical Research and Development Agency (provisional).
- **Energy:** reopening nuclear plants and promoting renewal sources like wind and solar to try to loosen some dependency on coal and hydrocarbons.
- **Other** sectors, for instance, those related to info-communications and to the 2020 Tokyo Olympic Games.

The subnational level

- Promotion of National Strategic Economic Growth Areas to serve as models for the rest of the country.
- Establishing a general framework and a Council on Regional Industrial Competitiveness focusing on SMEs and involving industry, academia, the public sector, financial institutions, and other stakeholders; supporting start-ups.

Enhancing human capital

- Flexibility in the employment system: setting up a merit-based pay system for specialists; promoting “diversified regular workers”; setting a transparent labour dispute resolution.

- *Womenomics*: promoting women with children to work by increasing childcare facilities, changing the current tax and social security systems which discriminate against working women, and allowing foreigners to work in housekeeping and nursing care.
- Immigration: attracting more foreign professionals by expanding the current points-based system; facilitating approval requirements; treating foreigners better at immigration ports; reducing the minimum periods of stay before getting permanent residency; enabling skilled workers to get training and work in construction and shipbuilding; accepting employees from overseas subsidiaries in the manufacturing industry.
- Using more robots where labour is scarce.
- Education: a difficult balance between instilling a harder-working, nationalist spirit in schools and promoting elite bilingual high schools; promoting innovative universities.

GLOBAL TRADE INITIATIVES

The global trade landscape was in the late 1990s centred in the WTO, but in the new century, it is now dominated by several types of preferential agreements. Liberal powers are nevertheless advancing Transatlantic, Transpacific, and Asian negotiations hoping to bring coherence to many bilateral agreements and recentre trade around global institutions. However, a rising China has launched a number of initiatives with other BRICS and is trying to catalyse many other potential partners for its new silk road projects.

The WTO

The Uruguay Round concluded in 1994 seven years of multilateral trade liberalisation negotiations, and over participating 100 economies (the EU and its member states count as one) set up the World Trade Organisation (WTO) to supersede the post-war General Agreement on Trade and Tariffs (GATT) regime. Since 1995, the WTO acts as administrator, supervisor, arbitrator, consultant, and negotiation forum for many issues under the original GATT for goods, and under other agreements focusing on services, intellectual property, government procurement, etc.

The WTO was planned to operate under the basic GATT liberalisation principles of most-favoured nation (same preferences to all member economies), national treatment (no discrimination between foreign and domestic actors) in all existing and future issues that signatories may agree to liberalise. In addition, it set up a sophisticated legal redress mechanism for the sanctioning of retaliatory measures in the case of uncorrected wrongdoing, an authority that still goes beyond the prerogatives of any other international economic agency.

The potentially most far-reaching WTO mechanism for economic liberalisation in post-industrial, services-based economies like the EU and Japan is the General Agreement on Trade in Services (**GATS**). It divided all types of services into eleven main sectors and over a hundred sub-sectors.¹⁰⁶ Further, all sub-sectors are categorised into four modes of supply.¹⁰⁷ Combining over a hundred sub-sectors and four modes of supply allows for a great number and diversity of potentially new commitments. GATS explicitly excludes services supplied in the exercise of governmental authority (article 1), which help explains the initially low overall commitments. But soon after the creation of the WTO, members signed GATS protocols with more specific liberalisation commitments in basic telephony communications, in financial services, and in the movement of natural persons, which helped accelerate the globalisation of financial and internet services.

The creation of the WTO was remarkable but the US and other countries soon pushed for also for further liberalisation. As there was no consensus in the first WTO Ministerial meeting, held in 1996 in Singapore, to advance an ambitious Multilateral Agreement on Investment (**MAI**), the US took it to the OECD in Paris.¹⁰⁸ In essence, early proposals asked for a fully fledged, binding international treaty encompassing a comprehensive, open-ended definition of investment that included direct and portfolio investment, real state, intellectual property rights, rights under contract, rights conferred by authorisations or permits. All phases of existing and future investment would have received national treatment and most favoured nation status. Reservations would have been subject to ‘standstill’, ‘rollback’, and ‘ratchet’ provisions; and a ‘top down’ principle would have been

¹⁰⁶ Business (including professional services); communications (including telecommunications and audio-visual); construction and related engineering; distribution; education; environment; financial; health and social; recreational, cultural and sports; tourism and travel; transport; there is a twelfth category for ‘other’ sectors.

¹⁰⁷ Modes 1 and 2 refer to cross-border supply and consumption abroad (easier to liberalise as they are hard for governments to control), supply mode 3 refers to commercial presence (similar to foreign direct investment), and mode 4 on the temporary presence of natural persons.

¹⁰⁸ David Henderson. 1999. *The MAI Affair; A Story and its Lessons*. London: Royal Institute of International Affairs.

applied to a general list. It would have had a formal dispute settlement mechanism, applicable to state-state and state-firms relations; and would have tied all official actions of governments at all levels (Federal and State in the US, regions in Europe, etc.), committing public actors to ‘upfront’ liberalisation. More specifically, it would have included privatisation measures subject to national treatment and most favoured nation provision on behaviour of public monopolies and state enterprises. Further, it would have given right of access and residence to key foreign personnel. On top of it all, it would have addressed the questions of extra-territoriality, regional economic integration organisations, and cultural industries. Later, environmental and labour standards were added to the agenda.

Such bold economic liberalisation agenda naturally encountered many reticences from both developed and developing countries. The nineties were already experienced recurring transatlantic disputes, which made a common US-EU position difficult. The lack of attention to labour and social issues catalysed international networks of activists, who in the WTO ministerial in Seattle in 1999 set the tune for later confrontations at times of high-profile international gatherings that forced economic leaders to become more reclusive and reflective.

Moreover, many developing countries felt they were not profiting enough from the WTO. So, in its fourth ministerial conference held in Doha (Qatar) in 2001 member economies (including China and Taiwan) launched a round of negotiations to advance the Doha Development Agenda (**DDA**).¹⁰⁹ Yet, this round has in 13 years accomplished very little in further liberalising global trade or in addressing the concerns of developing countries. Tellingly, in a WTO ministerial held in Bali (Indonesia) in December 2013 agreed to a comprehensive package with instructions to finish remaining DDA issues by the end of 2014. The Bali package even included four instruments related to agriculture after the US and India had compromised on agricultural subsidies. However, a few months later India changed its mind and the whole interim agreement became paralysed for several months.

Therefore, in late 2014, there were transatlantic calls to get away with the principle of consensus in the WTO, which is opening up a key debate in global economic governance:

The World Trade Organization’s director-general, Roberto Azevêdo, has called for an urgent shakeup of his institution. Last week, he declared the WTO to be in “the most serious situation [it] has ever faced,” and now he is convening crisis talks with member countries. One of the main reform proposals,

¹⁰⁹ www.wto.org/english/tratop_e/dda_e/dda_e.htm

reportedly advocated by the United States and the European Union, is to move away from consensus-based decision-making – one of the WTO’s founding principles. That might boost efficiency, but it also could jeopardize one of the WTO’s greatest assets: its legitimacy.¹¹⁰

Liberal Initiatives

In Preferential Trade Agreements (**PTAs**) many barriers may be lowered among two or more economies. PTAs are actually allowed by the WTO as long as they promote trade among signatories and do not negatively affect other member economies. Since 1995, the WTO has received notification of hundreds of PTAs, but many others are not even notified.¹¹¹ There are so many of them that when pictured in a map they seem to form a “spaghetti bowl”.

The majority of PTAs are bilateral. Most economies have now signed at least a few and are negotiating more. The EU-Japan FTA/EPA negotiations would be considered a bilateral PTA as the EU counts as one economy. However, there are also regional and sectoral initiatives among liberal, democratic economies.

The US and its allies hope that a new round of large-scale, regional PTAs may facilitate reaching broader multilateral liberalisation. They are often called **mega-regionals** trade agreements, and have been defined as

deep integration partnerships between countries or regions with a major share of world trade and foreign direct investment (FDI), and in which two or more of the parties are in a paramount driver position, or serve as hubs, in global value chains.¹¹²

The main ones are being advanced across the Atlantic, and across Asia and the Pacific.

The EU and Japan

The EU remains a global economic power that uses a growing variety of mechanisms to increase trade links.¹¹³ The EU has traditionally been in favour of liberalising trade within the WTO. However, with its “Global Europe” strategy of

¹¹⁰ Emily Jones. 2014. “The WTO’s Reform Crisis”, www.project-syndicate.org/commentary/wto-reform-crisis-by-emily-jones-2014-10

¹¹¹ There are four types of legal possibilities: GATT’s Article XXIV (Territorial Application – Frontier Traffic – Customs Unions and Free-trade Areas); Enabling Clause: Allows PTAs in goods trade among developing countries; GATS Article V: Services. there is not much understanding of the regionalisation of services under GATS’ article V (Economic Integration); and article V-bis (Labour Markets Integration Agreements).

¹¹² World Economic Forum. 2014. *Mega-regional Trade Agreements: Game-Changers or Costly Distractions for the World Trading System?* Geneva, July, p. 6, www.weforum.org/reports/mega-regional-trade-agreements-game-changers-or-costly-distractions-world-trading-system-0

¹¹³ http://ec.europa.eu/trade/policy/countries-and-regions/index_en.htm

2006 it ended its de facto moratorium on bilateral trade negotiations.¹¹⁴ Its diversified portfolio of bilateral and plurilateral trade agreements and negotiations now gives less weight to former colonies, and shows more interest in promoting trade and investment with key and growing economies.¹¹⁵

The EU increasingly focuses on Asia. It has signed bilateral agreements with South Korea (not yet fully ratified by all EU member states) and with Singapore (the difficult process of ratification just began). It is negotiating comprehensive agreements with Japan and Vietnam. It is advancing an investment treaty with market access provisions with China, as a full economic partnership agreement would not be reached because China would not accept some conditions from the EU. Negotiations with India were stalled but there seems to be attempts to restart them.¹¹⁶ This may induce some progress in EU-ASEAN relations, also stalled as the EU was waiting for ASEAN to liberalise more the economies of the ten very diverse Southeast Asian countries.¹¹⁷

More EU member states are trying to reach to East Asia to alleviate the effects of the economic crisis, but increasingly they realise they have to collaborate with the EU institutions. For instance,

France has launched an Asia-wide initiative in an attempt to halt declining trade figures and improve its overall leverage with the region. ... France's Asia policy remains trapped between Europe's half-baked intergovernmentalism and a federal system that many politicians know will diminish France's status.¹¹⁸

Meanwhile, Abenomics is reflected in Japan's current drive to promote freer trade regimes with the main growth centre around the world. Like the EU, Japan used to prioritise multilateral trade liberalisation via the WTO over bilateral or regional trade agreements. Like the EU, Japan has taken a multi-level route.¹¹⁹ Japan signed in 2001 with Singapore its first economic partnership agreement. By late 2014, it has in force 12 agreements with small countries, one with the Gulf Cooperation Countries, and another with ASEAN as a whole. Further, in the summer of 2014, Japan signed a substantive agreement with Australia that includes agri-food, and

¹¹⁴ http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146941.pdf

¹¹⁵ *Agreements*: http://ec.europa.eu/trade/policy/countries-and-regions/agreements/index_en.htm;
Negotiations: http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf

¹¹⁶ www.bilaterals.org/?eu-keen-to-take-restart-stalled

¹¹⁷ Kishore Mahbubani and Fraser Thompson. 2014. "Unlocking ASEAN's Potential", 19 December, www.project-syndicate.org/commentary/southeast-asia-economic-open-market-by-kishore-mahbubani-and-fraser-thompson-2014-12

¹¹⁸ François Godement. 2014. "France's 'Pivot' to Asia". European Council on Foreign Relations", 12 May, www.ecfr.eu/publications/summary/frances_pivot_to_asia307

¹¹⁹ www.mofa.go.jp/policy/economy/fta/

another with Mongolia.¹²⁰ In addition, it is advancing several others including the regional ones presented below. Meanwhile, it uses development aid and special agreements to link to other places around the world.

Regional

Since the 1990s, there have been many attempts to advance regional agreements beyond the EU.¹²¹ Nevertheless, most are generally quite weak and incoherent as a reflection of broader global politics.

For instance, there are several partially competing processes in the Americas, sometimes reaching to the Atlantic and the Pacific.¹²² Mercosur, a customs union in South America, is stalled and now trying to link to the Pacific Alliance to its North hoping to jointly win over the radical Bolivarian alliance. Meanwhile, Putin's Russia faces much hostility to advance his recurring Eurasian union plans.¹²³

The East-Asian panorama is also full of overlapping and shifting initiatives. ASEAN may not achieve soon its next stage towards economic union planned for 2015, less alone grander plans.¹²⁴ Meanwhile, progress is slow in the Regional Comprehensive Economic Partnership (RCEP) negotiations that began in 2012 among ASEAN+6, the six being China, South Korea, Japan, Australia, New Zealand and India.¹²⁵ Tripartite negotiations among China, South Korea and Japan were launched in 2012 but are not advancing despite occasional meetings.¹²⁶

However, occasionally there is surprising news. For instance, three regional groups of countries in Africa signed in October 2014 a Tripartite FTA, aiming to help achieve a continental FTA by 2017.¹²⁷

¹²⁰ <http://thediplomat.com/2014/07/the-japan-mongolia-fta-is-about-cars-minerals-and-abductees/>

¹²¹ www.cris.unu.edu/riks/web/

¹²² Cintia Quiliconi. 2013. "Competitive integration models in the Western hemisphere: competitive leadership or mutual denial?" *Revista CIDOB d'Afers Internacionals*, n.102-103, pp. 147-168, Barcelona, www.cidob.org/en/publications/journals/cidob_journal_of_afers_internacionals/rediscovering_the_atlantic_space

¹²³ Casey Michel. 2014. "Vladimir Putin's Impotent Eurasian Union: Why the Russian president's dream of 'near abroad' linked to Moscow might be less than the sum of its parts", *Foreign Policy*, 5 June, www.foreignpolicy.com/articles/2014/06/05/vladimir_putins_impotent_eurasian_union_kazakhstan_belarus_ukraine

¹²⁴ Amitav Acharya. 2013. "ASEAN 2030: Challenges of Building a Mature Political and Security Community". ADBI Working Paper 441. Tokyo: Asian Development Bank Institute, www.adbi.org/working-paper/2013/10/28/5917.asean.2030.political.security.community/

¹²⁵ www.asean.org/news/asean-statement-communicues/item/regional-comprehensive-economic-partnership-rcep-joint-statement-the-first-meeting-of-trade-negotiating-committee

¹²⁶ <http://thediplomat.com/2014/03/china-japan-south-korea-hold-fta-talks-despite-political-tension/>

¹²⁷ www.bilaterals.org/?comesa-eac-sadc-ministers-agree-to

Sectoral

Some non-regional groups of countries advance special preferential agreements within the WTO. Meanwhile, other groups of countries are advancing initiatives on the margins of the WTO to liberalise specific sectors or issues.

In 1996, 26 countries signed an Information Technology Agreement (**ITA**) to bring tariffs to zero. ITA has gradually grown to incorporate a total 70 economies with the broader goal of addressing non-tariff barriers.¹²⁸

Also within the WTO, there is a so-called plurilateral agreement on government **procurement**. As negotiating plurilateral agreements is so complex, there are calls for simplifying their negotiation rules to allow other ones.¹²⁹

An initiative of the US is the negotiations toward a Trade in Services Agreement (**TiSA**). About 50 countries (including the 28 of the EU, Japan, Taiwan or Chinese Taipei, and the US) eventually began negotiating on the margins of the WTO.¹³⁰ Nevertheless, there are no signs of progress since Wikileaks released in June 2014 a classified draft of the proposal's financial service annex.

A promising cross-sectoral negotiation is the "**green** goods initiative".¹³¹ In January 2014, in the World Economic Forum annual meeting in Davos, 14 economies (including the EU, Japan, China and the US)¹³² pledged to launch negotiations to liberalise global trade in goods, services and technologies related to the environment. This includes air and water cleaning, waste management, energy efficiency and renewable energies. Since the first round of talks took place in July 2014 participants are working to liberalise trade in specific issues in existing multilateral (like APEC), plurilateral and bilateral talks. Although environmental issues is a relatively small part of global trade, the sector is very dynamic as its added value and employment growths are higher than in most other sectors. Moreover, they should help alleviate many environmental concerns the world increasingly faces. However, the main starting problem of this initiative seems to

¹²⁸ www.wto.org/english/tratop_e/inftec_e/inftec_e.htm

¹²⁹ Bernard Hoekman and Petros Mavroidis. 2013. "WTO 'à la carte' or WTO 'menu du jour'? Assessing the case for Plurilateral Agreements", Robert Schuman Centre for Advanced Studies, Global Governance Programme-57. Florence, <http://globalgovernanceprogramme.eui.eu/research-areas/global-economics/> (exactly at <http://cadmus.eui.eu/handle/1814/27611>)

¹³⁰ https://en.wikipedia.org/wiki/Trade_in_Services_Agreement

¹³¹ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1116>

¹³² Australia, Canada, China, Costa Rica, Chinese Taipei, the European Union, Hong Kong (China), Japan, Korea, New Zealand, Norway, Switzerland, Singapore, United States.

be how to define actual goods and services since there are hundreds of often competing ecolabels.¹³³

TTIP and CETA

The Transatlantic Trade and Investment Partnership (**TTIP**) negotiations between the EU and the US began in July 2013.¹³⁴ One aim is to consolidate an already dense transatlantic trade space, but its focus is to further liberalise direct investment, public procurement and public services, although cultural sectors, including audio-visual services, are not included. Official projections claim that a deep agreement would boost the EU economy by €120 billion, the US economy by €90 billion and the rest of the world by €100 billion.

However, prospects for reaching a deep agreement do not seem high for there is much opposition.¹³⁵ Internet freedom activists rebel against the lack of transparency in the negotiations.¹³⁶ Others are concerned about data privacy and intellectual property issues. Environmentalists warn against GMOs, and health professionals warn against clauses on chemicals. Organized labour claims that many jobs would be lost and workers would benefit little. A critical NGO estimates that gains would be much smaller than predicted, as economic models use too optimistic expectations of reduction in NTBs, while the social costs of regulatory change might be substantial, macroeconomic adjustment costs are not negligible.¹³⁷ Many people, including elected officials have participated in street protesting rights the TTIP negotiations.

One of the main issues of contention is a mechanism for investor protection, including Investor-State Dispute Settlement (**ISDS**), which would give firms the possibility to easily sue governments if they breach the agreement, but apparently not the other way around. Moreover, there are objections to a potential mutualisation at the EU level of investment liability, which is the core debate to resolve the Euro crisis.¹³⁸

¹³³ www.ecolabelindex.com

¹³⁴ <http://ec.europa.eu/trade/policy/in-focus/ttip/>

¹³⁵ Marika Armanovica and Roberto Bendini. 2014. "Civil society's concerns about the Transatlantic Trade and Investment Partnership", Brussels: European Parliament, 4 October, www.europarl.europa.eu/RegData/etudes/IDAN/2014/536404/EXPO_IDA%282014%29536404_EN.pdf

¹³⁶ Under pressure, the EU published in October 2014 its 2013 mandate on the TTIP: see www.Stop-TTIP.org

¹³⁷ Raza Werner. 2014. "Assess TTIP: Assessing the claimed benefits of the Transatlantic Trade and Investment Partnership (TTIP)" Final Report. Vienna: Austrian Foundation for Development Research. www.OEFSE.at

¹³⁸ Hans-Werner Sinn. 2014. "Free Trade Pitfalls", www.project-syndicate.org/commentary/hans-werner-sinn-considers-the-risks-of-the-transatlantic-trade-and-investment-partnership

Besides, the process of political approval may take years. Many parts of any substantial agreement must first be approved by the European Parliament and then ratified by all individual 28 EU member states, which have to debate versions in their own languages. Indeed, that is happening to a much smaller EU-Canada Comprehensive Economic and Trade Agreement (**CETA**), which optimists see as a harbinger of the TTIP negotiations.¹³⁹ The CETA agreement was signed in September 2014, but Germany soon complained that Canada was not doing enough to protect investments.¹⁴⁰

TPP, FTAAP, etc.

The Trans-Pacific Strategic Economic Partnership (**TPP**) is developing from an agreement in the mid 2000s among a group of small liberal countries. It became a so-called Mega-FTA as the US joined negotiations in 2011, and Japan in 2013.¹⁴¹ China and others have shown some interest in the TPP, but their eventual joining would require accepting rather liberal interim or full accords.

The TPP is addressing 21 chapters, including four crosscutting issues. As in the case of the TTIP, such comprehensiveness is drawing much criticism from environmentalists, workers, some vested interests, civil society groups and even politicians, lowering prospects of finalising all or most chapters under negotiation.¹⁴²

Furthermore, bilateral consultations between Japan and the US must be concluded first for the TPP negotiations to reach a general agreement. The US hoped to reach a first agreement by the APEC summit of November 2014, but that proved unrealistic:¹⁴³

The forecast looks cloudy for reaching a broad agreement in November among countries participating in the Trans-Pacific Partnership free trade negotiations, as Japan and the United States remain divided over specifics on sensitive issues. Akira Amari, state minister in charge of TPP issues, and U.S. Trade Representative Michael Froman ended their ministerial meeting Wednesday without making progress on pending trade issues. During the two-day meeting in Washington, Japan made a new compromise proposal, but the United States kept a firm stance. Amari told reporters after the meeting, “We presented a flexible proposal and received a positive response to some extent, but

¹³⁹ <http://eu-canada.com/about/canada-eu-trade-agreement/>

¹⁴⁰ www.bilaterals.org/?-EU-Canada-CETA-

¹⁴¹ www.ustr.gov/tpp

¹⁴² www.bilaterals.org/?-TPP-

¹⁴³ Yasue Kunihiro and Miyuki Yoshioka. 2014. “Glum outlook for reaching TPP agreement in Nov.” Yomiuri Shimbun, www.the-japan-news.com/news/article/0001598369

discussions afterward didn't go well." The U.S. side said in a statement that they failed to make further progress on the key outstanding issues. In April, Japan and the United States reached a basic agreement to significantly cut Japanese tariffs on U.S. beef and pork. However, their subsequent talks on the details have stalled, as the two countries remain split over such issues as conditions for invoking safeguard measures intended to bring the Japanese tariffs back to the current levels in the event of an import surge of U.S. beef and pork.

Behind such an unyielding stance are political circumstances in the United States. The administration of President Barack Obama apparently believes that the ruling Democrats would be at a disadvantage in the Nov. 4 midterm election if Washington were to easily compromise with Japan on TPP issues before then. Labor unions and environmental groups comprise support bases for the Democrats. The Obama administration has been wary that a TPP deal may result in worsening U.S. employment by driving domestic companies to relocate to overseas and causing more cost-competitive products to flow into the United States. The Republican Party, which has many members supporting the TPP framework, has also been critical that the Obama administration has yet to clinch a deal with Japan to scrap tariffs on U.S. beef and pork. Major U.S. farmers' groups, including the National Pork Producers Council, have called for a TPP deal without Japan if the country continues to refuse to remove the tariffs. The conclusion of the TPP negotiations with the tariffs remaining could provide an excuse for the Republicans to criticize the Democrats. In light of this, the U.S. side has found it necessary to proceed with the TPP talks while giving consideration to the upcoming election.

Meanwhile, negotiations within the 21 member economies of APEC towards a Free Trade Agreement on Asia-Pacific (**FTAAP**) finally started in May 2014 after several years of discussion: APEC has created a Committee on Trade and Investment, designed a roadmap, began promoting capacity building and analytical skills, and released a statement to enhance transparency in the various regional negotiations in Asia.¹⁴⁴ China pressured to advance this trade liberalisation route in the APEC summit held in Beijing in November 2014.¹⁴⁵ However, the US still prefers to advance the TPP that still excludes China.¹⁴⁶

Finally, some experts in the US are launching the idea of a Trans-American Partnership (**TAP**) between the three countries of NAFTA (Canada, US, Mexico), and the Latin-American countries that have signed FTAs with the US. In other words, this proposal seems to promote links between the American members of APEC.¹⁴⁷

¹⁴⁴ www.APEC.org

¹⁴⁵ http://news.xinhuanet.com/english/china/2014-11/11/c_133782162.htm

¹⁴⁶ <http://thediplomat.com/2014/11/us-pressures-china-to-kill-asia-pacific-free-trade-agreement-talks/>

¹⁴⁷ Ernesto Talvi. 2014. "A New Trans-American Partnership", 9 September, www.project-syndicate.org/commentary/ernesto-talvi-calls-for-renewed-cooperation--beginning-with-trade--between-north-and-south-america

The Rise of China

Internal Modernizations

China's rapid modernizations since the 1980s have lifted hundreds of millions out of poverty. This was largely fuelled by importing resources, putting rural workers to work in cities, and exporting at very competitive prices. Since Den Xiao-ping, entrepreneurs and other actors have gradually been incorporated in the country's governance. The challenge of the current leadership centred on Xi Jin-ping is to accommodate an ever-broader array of actors that want economic progress, peace *and* a greater say in the country's direction.

However, China still has many problems that will take decades to solve as its growth rate slows.¹⁴⁸ Its per capita income is still low, its inequality is high, and it lacks technologies to compete in value-added industries and services. More countries in Asia's periphery are democratising as they grow economically, but China is still ruled by an unelected Communist party politburo and its external strategy largely set by seemingly unaccountable armed forces. There are occasional protests in the streets and in social media, but the authorities keep strong controls over them, even in Hong Kong. Moreover, China's military projection is creating regional insecurity.

Fortunately, China keeps adapting, possibly giving even more weight to market competition:

The Third Plenum Communiqué, released November 12 [2013], outlines a path for China's market-oriented reforms over the next six years and indicates an expanded role for market forces to determine economic outcomes. The expectations were raised high for major policy announcements, but the vaguely worded, Party jargon-laden Communiqué disappointed analysts inside and outside China. At the broadest level, the Communiqué stated that reforms should allow the "market to play a decisive role in allocating resources and to give better play to the role of the government." Another Plenum recommendation calls for further reforms of China's investment regime, both for foreign firms investing in China and for Chinese firms investing abroad, aimed at promoting "reform by opening up." Officials and academics who worked on the plan discussed at the Plenum said state-owned enterprises (SOEs) have become "so adept at blocking change" that the leadership may reduce their influence by opening up previously closed sectors to competition. Specific prescriptions on reforming the financial sector and tackling the SOEs were largely omitted from the Plenum's prescriptions.¹⁴⁹

¹⁴⁸ Joseph Nye. 2014. China's Questionable Economic Power", 6 November, www.project-syndicate.org/commentary/china-questionable-economic-power-by-joseph-s--nye-2014-11

¹⁴⁹ U.S.-China Economic and Security Review Commission. 2013. Third Plenum Economic Reform Proposals: a Scorecard, 19 November, p. 2, www.uscc.gov/Research/third-plenum-economic-reform-proposals-scorecard

Trade initiatives

The world is linked to China's growth through trade and investment. Southeast Asia, Mongolia, Australia, Iran, Russia, much of Latin America and Africa ship large amounts of natural resources, sometimes with the support of Chinese capital and labour. North American, European, Korean and Japanese multinationals have invested large sums in China, and are pressuring with their governments to further liberalise China's economy. While China would like to join and shape TiSA and TPP initiatives, it is advancing its own initiatives and raising mixed awe in the West.

A crippled **Russia** antagonising the West has little option than becoming a junior economic partner to China. This was sealed in May 2014, when China contracted to spend perhaps \$400 billion in exchange for 30 years of Siberian gas sent through two new pipelines. Seventeen more agreements followed in November during the APEC summit in Beijing. They will cooperate in high-speed rail, finance, technology and aerospace.¹⁵⁰

In July 2014, in the sixth summit of the **BRICS** countries (Brazil, Russia, India, China, and South Africa), leaders announced a New Development Bank (NDB) focused on infrastructure projects in Asia and based in Shanghai, and a Contingent Reserve Arrangement (CRA). Yet, these initiatives have raised controversy, as they may compete with the existing Asian Development Bank led by Japan and other regional financial arrangements developed since the Asian financial crisis of 1997. However, the new initiatives still do not seem specially threatening:

It was a public relations coup, especially for Brasil and Russia, whose economies are slacking. The agreement was also an opportunity for the five countries to reiterate their dissatisfaction with the World Bank, the International Monetary Fund, and the role of the dollar in the global monetary system. ... The logic for the NDB is compelling. The BRICS, and developing countries generally, have immense infrastructure needs. ... Moreover, there already is a proliferation of regional development banks, ... Their existence creates no major problems for the Bretton Woods institutions. There is no reason why the NDB should create problems, either. ... The NDB makes sense for the BRICS, and it has a future. But the CRA is empty symbolism, and that is how it will be remembered.¹⁵¹

More recently, China plans modern silk-roads by land and by sea:

In September of last year, in a speech at Kazakhstan's Nazarbayev University, Xi announced the so-called "Silk Road Economic Belt", a new foreign-policy initiative aimed at boosting international cooperation and joint development

¹⁵⁰ http://news.xinhuanet.com/english/china/2014-11/09/c_133776840.htm

¹⁵¹ Barry Eichengreen,. 2014. <https://www.project-syndicate.org/commentary/barry-eichengreen-is-bullish-on-the-group-s-new-development-bank-but-not-on-its-contingent-reserve-arrangement#0s9E7HgOq001kill.99>

throughout Eurasia. To guide the effort, Xi identified five specific goals: strengthening economic collaboration, improving road connectivity, promoting trade and investment, facilitating currency conversion, and bolstering people-to-people exchanges.

The following month, the other shoe dropped. Xi, addressing Indonesia's Parliament, called for the re-establishment of the old sea networks to create a twenty-first century "maritime Silk Road" to foster international connectivity, scientific and environmental research, and fisheries activities.

... through China may not struggle to finance its Silk Road ambitions, it is likely to face political resistance...¹⁵²

China then announced in the APEC summit a \$40 billion fund

to support infrastructure investments in countries involved in the "one belt, one road" plan. This new proposal is in addition to the Asian Infrastructure Investment Bank (AIIB) proposal that 21 countries have already joined. ... According to some estimates, the total value of China's "one belt, one road" initiative could reach \$21 trillion. If successful, China could extend the "one belt, one road" initiative to the whole world as long as other countries are interested in development and trading with China.¹⁵³

The map showing the silk roads link coastal China with Italy and Central China with Holland.¹⁵⁴ Furthermore, in December 2014, the first direct China-Spain freight train arrived in Madrid.¹⁵⁵ Now the question for the EU-Japan relationship is, can it join those new networks?

Unsure Prospects

PTAs can either improve economic welfare if they create trade, or worsen welfare if they divert trade.¹⁵⁶ However, potential effects are usually unclear a priori, each case must be assessed individually afterwards which is a very difficult exercise.

The main rule of thumb is that countries excluded from a PTA usually lose growth potential. Large PTAs should minimise negative effects from the proliferation of bilateral and small PTAs within it. The following table show that the share of trade within PTAs would be very large if those under negotiation were concluded.

¹⁵² Shashi Tharoor. 2014. "China's Silk Road Revival", www.project-syndicate.org/commentary/china-silk-road-economic-belt-goals-by-shashi-tharoor-2014-10

¹⁵³ <http://thediplomat.com/2014/11/chinas-marshall-plan-is-much-more/>

¹⁵⁴ www.xinhuanet.com/world/newsilkway/index.htm

¹⁵⁵ http://politica.elpais.com/politica/2014/12/09/actualidad/1418131219_308872.html

¹⁵⁶ Trade creation occurs when the formation of a FTA or CU leads to a switching of imports from a high-cost source to a low-cost source. Trade diversion occurs when imports switch from a low-cost source to a high-cost source.

Table 8 – Powers' percentage of trade within PTAs

	In Force	Including under negotiation
US	37	71
Korea	36	83
China	27	53
EU28	26	68
Japan	23	84

Source: Author based on Tomohiro KANEKO'S presentation in "Mega-FTAs, globalization and technological change: An assessment of the EU and Japan's role in setting the Trade rules for the 21st Century", Tokyo: EU Delegation, 3 June 2014. Based on Global Trade Atlas (2013)

From this point of view, large PTAs would also have negative growth effects outside it. In other words, the EU would lose if only the TPP, RECP or FTTAP were concluded, while Japan would loose if only the TTIP is concluded.

Table 9 – Effects of main PTAs on major powers

	EU	Japan	China	US
TPP	bad	good	bad	good
RECP	bad	very good	very good	bad
FTTAP	bad	very good	ext good	very good
EU-Japan	very good	good	bad	bad
TTIP	very good	bad	bad	good

Source: Author based on Ken KAWASAKI'S presentation in "Mega-FTAs, globalization and technological change: An assessment of the EU and Japan's role in setting the Trade rules for the 21st Century", Tokyo: EU Delegation, 3 June 2014

However, many factors may disrupt liberalising trade and achieving a general increase in welfare. Complexity is one:

The main reason for slow progress in trade negotiations is not increasing protectionism; it is the fact that further liberalization entails complex trade-offs no longer offset by very large potential benefits. The Doha Round's failure has been decried as a setback for developing countries. And some liberalization – say, of advanced economies' cotton imports – would undoubtedly benefit some low-income economies. But full trade liberalization would have a complex impact on the least developed economies, some of which would benefit only if compensated for the loss of the preferential access to advanced-economy markets that they currently enjoy.¹⁵⁷

Moreover, removing some trade measures may also have negative social effects beyond economic wealth:

While some non-tariff measures might be easy to dismiss as protectionist, many others serve legitimate public-policy objectives, such as consumer safety

¹⁵⁷ Adair Turner. 2014. "The Trade Delusion", 18 July, www.project-syndicate.org/commentary/adair-turner-explains-why-more-trade-may-no-longer-mean-more-growth

or environmental protection, making it difficult to ensure that they do not conflict with the basic principles of fairness and openness.¹⁵⁸

In sum, there are real possibilities that the above liberalising initiatives end in failure:

Success in TPP and TTIP negotiations cannot be taken for granted as they both face tremendous challenges. In the case of the TPP, the two main obstacles are the possibility that Japan may not be able to agree to significantly liberalizing agriculture and services – which may then have agricultural and service exporters within the TPP threatening to walk out of the negotiations – and the domestic opposition to the TPP in the US Congress, from both Democrats and Republicans. In the case of the TTIP, the sheer complexity of the deal, the resistance of independent regulatory agencies on both sides, and the opposition of states to federal mandates either to open procurement or to harmonize product regulations and professional standards, are the main roadblocks to the success of the negotiating process.

If the two mega-regionals either fail outright or do not deliver as expected, and if the WTO stumbles as a serious negotiating forum, the years 2013-2015 might well be called the Great Turning Point in post-Second World War policy liberalization, when fresh policy liberalization, on the scale enjoyed from 1950 to 2000, ceased to be part of the picture. In this setting, it seems unlikely that global trade and investment can serve as the great drivers of world growth and prosperity that they were in the half-century after the Second World War.¹⁵⁹

GLOBAL POWER DYNAMICS

The dynamics between the US, China and other powers may also affect the EU-Japan strategic partnership negotiations. Both the EU and Japan largely depend on the US for their security. However, they are searching to increase their capacities as the US shows difficulties in fulfilling its earlier role of global stabiliser as other powers rise.

To some, the China-Russia economic axis indicates a new security antagonism with the US, reminiscent of the Cold War. Both powers

have been consciously emphasizing foreign policies that dismiss Western legitimacy, while carefully refraining from commenting on the foreign policy ambitions of each other. Chinese President Xi Jinping has described a so-called China Dream that involves a new geopolitical order in Asia built by the governments of that region—with Beijing playing an outsize role. Russian

¹⁵⁸ Pascal Lamy. 2014. “The Perilous Retreat from Global Trade Rules”, 9 Jan, www.project-syndicate.org/print/pascal-lamy-on-the-need-for-a-coherent-global-trade-regime

¹⁵⁹ World Economic Forum. 2014. *Mega-regional Trade Agreements: Game-Changers or Costly Distractions for the World Trading System?* Geneva, July, p. 10, www.weforum.org/reports/mega-regional-trade-agreements-game-changers-or-costly-distractions-world-trading-system-0

President Vladimir Putin has likewise clarified that his goal is to create a Eurasian Union, in which relations between former Soviet states are determined by Moscow. Both states have accused the United States of following an aggressive Cold War mentality by trying to contain their rightful ambitions in their regions.¹⁶⁰

Transatlantic Pivoting

The EU has developed a small security capacity.¹⁶¹ Yet, it is still unable to address its security concerns alone even in its neighbourhood.

The EU's main geopolitical problem is with Russia over Ukraine's gravitating to the liberal West.¹⁶² Russia's annexation of Crimea and the helping of rebels in Donbas was actually catalysed by Ukraine's signing in early 2014 with the EU an association agreement (a framework agreement with many political and economic components). The conflict became frozen as discussions focused on payments of Russian gas to Europe via Ukraine. Yet, it has showed that the European Neighbourhood Policy was not strategic enough, wrongly assuming that the EU's values and structures are so attractive that no power would get upset if a neighbour becomes closer to the EU.

The EU wants but cannot change the situation alone. The new EU high representative expressed her view to revise the partnership with Russia.¹⁶³ Yet, EU security structures will remain very weak during the rest of this decade. The EU Defence Council meeting of December 2013, the first one in several years, cautiously agreed to promote roadmaps for defence-industrial policy in Europe.¹⁶⁴ It also invited

the High Representative, in close cooperation with the Commission, to assess the impact of changes in the global environment, and to report to the Council in the course of 2015 on the challenges and opportunities arising for the Union, following consultations with the Member States.¹⁶⁵

¹⁶⁰ Gilbert Rozman. 2014. "Asia for the Asians", *Foreign Affairs*, 29 October, www.foreignaffairs.com/articles/142305/gilbert-rozman/asia-for-the-asians

¹⁶¹ European Union Institute for Security Studies. 2014. "European Security and Defense Basics". Paris, www.iss.europa.eu/uploads/media/CSDPbasics.pdf

¹⁶² www.ECFR.eu/wider

¹⁶³ www.theparliamentmagazine.eu/articles/eu-monitoring/federica-mogherini-questioned-over-eu-russia-relations

¹⁶⁴ Daniel Fiott. 2014. "An Industrious European Council on Defence?" Brussels: Egmont Institute Security Policy Brief, www.egmontinstitute.be/wp-content/uploads/2014/03/SPB53.pdf

¹⁶⁵ Sven Biscop & Jo Coelmon. 2013. "Defence: The European Council Matters". *Egmont*. Brussels. www.eda.europa.eu/info-hub/news/article/2013/12/20/defence-the-european-council-matters

Therefore, European security largely depends on the US, through bilateral alliances and through the North Atlantic Treaty Organisation (NATO). Meanwhile, other organisations like the Council of Europe and the Organisation for Security and Cooperation in Europe (OSCE) promote the socialisation of Russia. However, NATO remains relatively weak as its European members are not always well coordinated nor invest enough to be able to lead difficult missions in its dangerous neighbourhood. At least, NATO realised it had to take more seriously its goal of promoting collective security. In its summit of September 2014, NATO heads of state and government agreed to have more ready and connected forces, to invest more in defence, to promote groups of countries in charge of framing tasks before, during, and after conflicts.¹⁶⁶ Moreover, NATO would increase engagement with a growing number of partners, including Japan, which could be useful if the EU and Japan feel threatened by common enemies.

The US main security focus since the end of the Cold War had been the broad Middle East: it liberated Kuwait, invaded Iraq, led a large coalition to pacify Afghanistan, encouraged Arab Springs, long confronted Iran all over the region, and now faces the veiled Islamic State insurgency. Moreover, the US has to deal with a more assertive Russia in Ukraine.

Those conflicts make difficult a US rebalancing (or pivoting) into an increasingly turbulent East Asia centred on China's rise. The administration of Bush Jr. began linking India to the US networks of security alliances in East Asia. The Obama administration continues to slowly pivot to Asia but it highlights softer mechanisms, like diplomatic activity and economic negotiations.¹⁶⁷

In this strategic panorama, European friends and allies may soon have to take a greater burden in their regional security and in helping the US to address global challenges. Whether this finally starts to happen in the EU with the new High Representative is still an open question:

To boost transatlantic cooperation in Asia, the United States and Europe should take steps to speak with one voice on issues of mutual interest and concern. Both sides of the Atlantic would benefit from greater dialogue on a host of issues, including such matters as cyber security and communication technologies. The U.S. would also benefit from the EU's soft-power toolbox and support on humanitarian relief efforts, human rights, climate change, the rule of law, crisis prevention and conflict resolution. The United States may appear

¹⁶⁶ Giulia Formichetti and Paola Tessari. 2014. "After the NATO Wales Summit: Prospects for International Security". Documenti 14. Rome: Istituto Affari Internazionali. 9 November, www.iai.it/pdf/DocIAI/iai1409.pdf

¹⁶⁷ The Economist. 2014. "The city on the hill; democracy, human rights and all that take a back seat in America's Asia policy, 1 November, www.economist.com/blogs/banyan

distracted and Europe may well be facing significant challenges in its backyard. But, as Mogherini said, “This should not prevent us from pivoting to Asia together.”¹⁶⁸

Beyond the US-Japan Alliance in Asia

The current government of Japan is also advancing important measures to enhance its capacity in the security field.

In December 2013, Japan created its National Security Council (NSC) to centralise analysis and advice under the office of the Prime Minister. At the same time, it issued the first National Security Strategy to focus the NSC activities. It is promoting secrecy in its policies to the point that many worry about downgrading Japan’s media freedom. It is also setting a large, centralised equipment procurement agency that may globally trade equipment and technology. And, crucially, it has reinterpreted Article 9 of the Constitution to have more room for manoeuvre and is now preparing political fights to pass substantial legislation. The reinterpretation is based on an alien and, for many, ambiguous concept of “right of collective self-defence under international law”. This has created much controversy. Some think that opposition to ABE’s plans for defence will force him to downgrade them.¹⁶⁹

Others believe that Japan’s changes are carefully constrained:

Fears that the move would lead to Japanese involvement in distant US wars are similarly overblown. Indeed, the rules have been carefully crafted to prohibit such adventures, while allowing Japan to work more closely with the US on direct threats to Japanese security.¹⁷⁰

But that the new status must be carefully managed to avoid the rise of hard-liners in Japan’s historically hostile neighbourhood:

Unless it is very carefully managed by all concerned, including the United States and Japan’s other closest Asia-Pacific allies, Abe’s makeover of Japanese foreign policy could undermine the fragile power balances that have so far kept the Sino-American rivalry in check.¹⁷¹

¹⁶⁸ Federica Mogherini. 2014. “Pivot to Asia Together”, German Marshal Fund of the United States, www.gmfus.org/archives/pivot-to-asia-together/; www.usnews.com/opinion/blogs/world-report/2014/09/25/incoming-eu-foreign-policy-chief-sees-benefits-of-pivoting-to-asia

¹⁶⁹ Yoshisuke Iinuma. 2014. “Abe finding it hard to get his way on defence. *East Asia Forum*. www.eastasiaforum.org/2014/08/19/abe-finding-it-hard-to-get-his-way-on-defence/

¹⁷⁰ Joseph S. Nye and Gareth Evans. 2014. “Debating Japanese Defense”, 8 August. www.project-syndicate.org/commentary/debating-japan

¹⁷¹ Ibid.

Much of the above is due to the difficult relations that Japan still has with its neighbours. Occasionally there are windows for improvement via political dialogue, like in late 2014:

With Abe, Park, and Xi each facing daunting domestic challenges, a rare convergence in each country of self-interest and national interest may be creating a chance for improved relations. The question now is whether Northeast Asia's Big Three leaders can overcome old positions, shake hands, and get serious about regional diplomacy.¹⁷²

For some, prospects for Asia-Pacific economic integration are low, as China has become the main centre of economic growth and attraction, while Japan tries to diversify its links and Southeast Asia aims to form a customs union:

[T]he Asia-Pacific region is deeply and increasingly divided – including in economic terms. In particular, a reordering of regional economic relations seems to be separating North-East Asia from South-East and South Asia. While South Korea and Taiwan are increasingly drawn into China's trade orbit, Japan is seeking to reduce a similar dependence on China by diversifying its foreign direct investment (FDI). Meanwhile, the Association of Southeast Asian Nations (ASEAN) is moving closer to a customs union, with a quarter of its trade now between member states (compared to 45 percent for intra-EU trade).¹⁷³

On the other hand, optimists see possibilities for closer links between China and Japan as both leaders have balanced diverging interests within their countries:

One reason for Abe and Xi's newfound flexibility may be domestic political shifts in both countries, which have created a more equal balance between conservative, nationalist groups and more internationally-oriented business interests. With both leaders having spent the last two years overcoming domestic opponents and consolidating their power, they may have gained confidence in their ability to compromise. ... If this assessment is accurate, the obvious next question is how much further Abe and Xi can move toward détente, thereby appeasing their business sectors, without losing the backing of nationalists, who tend to view the bilateral relationship as a zero-sum game.¹⁷⁴

¹⁷² Yuriko Koike. 2014. "Northeast Asia's Home Fires Burning", 29 October, www.project-syndicate.org/commentary/asia-diplomacy-beijing-apec-summit-by-yuriko-koike-2014-10

¹⁷³ François Godement. 2014. "China on Asia's Mind". European Council on Foreign Relations, 18 September, www.ecfr.eu/publications/summary/china_on_asias_mind318

¹⁷⁴ Young-kwan Yoon, "The Asian Paradox", 4 November, www.project-syndicate.org/commentary/apec-summit-xi-abe-meeting-by-yoon-young-kwan-2014-11

MOVING FORWARD

It is now time to organise the key political and economic factors of the global multi-level analysis in this paper to help the EU and Japan develop the vision to undertake further strategic steps. Technological and environmental factors tend to have long-term effects, and eventually are mediated by political and economic factors, so they are usually not included in mid-term prospective analyses like this one.

This paper first presented the rise of strategic thinking in the EU and Japan in a fluid global context. Then it summarised the evolution of the bilateral relationship, which began in 1959 and has gone through different phases. Both partners are nowadays advancing interlinked negotiations to conclude strategic and economic partnership agreements (SPA & EPA). The expectation is to enhance relations in political, security, economic, and social spheres by the end of this decade.

Besides public officials, several business actors have been key in the relationship. The EU-Japan Centre for Industrial Cooperation helps businesses, including the EU-Japan Business Round Table, and it has grown to promote general policies and innovation. The European Parliament is becoming more involved in the partnership negotiations, and has the potential to catalyse the interest of many constituencies.

Many factors at different levels may affect the outcome of the agreements under negotiation between the EU and Japan. This report selected the main ones in Europe, East Asia and globally mainly from the statement elaborated for the last EU-Japan summit.

In Europe, the Eurozone seems viable, but many EU member states still need help with their structural reforms, which now are coming in the form of *Draghinomics*, the European version of Japan's *Abenomics*. In addition, the new leadership in European institutions seems more globally attentive. However, the political situation in many member states remains worrisome. Externally, the conflicts in Ukraine and the wider Middle East make difficult a European and a Transatlantic pivoting to Asia.

Meanwhile, Japan is addressing over two decades of stagnation and increasing regional insecurity. *Abenomics* has used bold monetary and fiscal policies and, after amply winning a snap election in mid-December 2014, the LDP government intends to accelerate its structural reforms combatting many vested interests. New

institutions and legal reinterpretations are helping a gradual military raise, with unclear regional consequences.

Japan now takes a global multi-level strategic approach. It is promoting investment areas mainly in the most dynamic cities, although it is also addressing the concerns of depopulated rural areas. It is advancing bilateral agreements with key partners (like the EU), it facilitates negotiations with mega-FTAs in Asia and the Pacific, and it remains committed to further WTO liberalisation.

Finally, there are both risks and opportunities in trying to increase the coherence between the global orders led by the US and China. Liberal powers are advancing, inter alia, Transatlantic, Transpacific, Asian and global economic negotiations. However, a rising China is also promoting a number of alternatives with other BRICS and many other potential partners of its new silk road projects.

In sum, world power is shifting back from the Atlantic to a vast and conflicting Asia in which China is rising as the main centre of attraction while the EU and Japan try to increase links to be ready to counterbalance if the need came. And more actors beyond state officials have the power to affect global developments. Businesses, intellectuals, social NGOs and networks of people link through many transportation and communication channels. While neither rising powers nor non-state actors can propose a viable alternative the value system highlighted in the EU-Japan declarations, they can either help responsibly or derail current efforts to upgrade it.

We now have a broad situation analysis that includes local, regional and global political and economic factors that may help us develop grander strategic visions. However, we have to select the main ones and classify their potential impact for the expected EU-Japan strategic partnership.

A Summary SWOT

The following SWOT (Strengths, Weaknesses, Opportunities and Threats) matrix presents those factors in clear dichotomies. It shows an understanding of the main positive and negative factors, both internal and external, that may affect the evolving EU-Japan relationship.

Table 10 – Key issues summarised in a SWOT matrix

		Strengths	Weaknesses
Internal	EU-Japan	Political commitment to advance SPA & FTA/EPA negotiations Model of a working joint institution: the EU-Japan Centre for Industrial Cooperation Could globally lead some sectors in health and infrastructure	Few actors besides businesses giving input to diplomats: uncertain social reaction in the future Lack of clear value convergence Scant institutional resources to attract broad interest
	EU	Maintains political stability <i>Draghinomics</i> inducing long-term structural reforms in member states, with enhanced short-term monetary measures Enhancing security through NATO	Technocracy and populism over broad-based democracy Nationalisms, anti-europeisms Cannot solve alone conflicts in Ukraine and wider Middle East
	Japan	Working leadership and political balance Ample victory in 2014 snap election <i>Abenomics'</i> bold short-term monetary and fiscal measures, and efforts to advance many structural reforms Olympic games may create a more global mind-set among Japanese	Reforms have to continue for the economy to grow substantially Vested interests remain very strong and still can debilitate the government coalition Regional historical problems unresolved and compounded with flashpoints around China
		Opportunities	Threats
External	US	Advancing large trade negotiations Favours diplomacy over military adventures Leading from behind: promoting allies to take greater roles in their regions	Partisan fights. Congress against TPP Conflicts near Europe prevent a rapid rebalancing to Asia
	China	Economic reforms continue with under Xi, especially the liberalisation of state-owned enterprises	Military projection in contested islands Unclear global economic alternatives
	Global Trade	Mega-FTAs trying to bring coherence to many bilateral agreements	WTO's Doha Round may not conclude Mega-FTAs are too complex, far-reaching and technocratic

Source: Author's own compilation.

More refined analyses would produce more nuanced SWOTs. Moreover, other SWOT matrixes based on different goals or ideological assumptions are possible, even necessary to spark discussion. In any case, there are many unclear situations, riddled with tensions, rendering one unable to see trends and classify factors as positive or negative. For instance, the TTIP and/or the TPP negotiations may not achieve meaningful results. Is that good or bad for the EU-Japan FTA/EPA? Perhaps

the multilateral trade regime will collapse, but perhaps the EU and Japan could lead a new round of multilateralism based on common standards. Similarly, would China-led economic arrangements be good or bad for the EU-Japan partnership? Perhaps the EU and Japan could link to those initiatives to get inspiration to improve their development models.

Some Recommendations

Situation and SWOT analyses are just elements of strategic visioning used by effective strategic leaders. Thus, leaders in the EU and in Japan should be better prepared to take other strategic steps to strengthen the relationship. They should focus on key leverage points to minimise common weaknesses and maximize strengths to increase economic growth and a broad array of productive political and social links able to sustain that peaceful development. For that these recommendations may prove useful:

- a) **Enhance strategic visioning:** All those concerned with the EU-Japan relationship should enhance their strategic vision and thinking with regular upgrades of their understanding of the evolving global multi-level situation, then organised with SWOT and other useful techniques. In addition, at the highest levels, both strategic partners should advance joint foresight activities to be ready for more expected and unexpected outcomes. European institutions and groups of member states may find it useful to link future strategic exercises (perhaps modelled on ESPAS and the European Global Strategy) with the most strategic councils under Japan's government and administrations.
- b) **Consider creating a EU-Japan Centre for Strategic Governance:** The EU and Japan would need durable assets to make their partnership a reality. There is a need for institutional arrangements, inducement for more actors to increase links, funding activities, and regular reviews to affront new challenges. A Centre for Strategic Governance should be designed carefully. It should be broad-based, excellence driven, flexible, and checked with periodic internal and external reviews. The EU-Japan Centre for industrial cooperation could be studied to extract lessons as it employs or engages increasingly diverse people beyond business to advance a growing array of activities.

- c) **Engage in particular think-tank experts:** Both the EU and Japan have specialist and generalist think-tanks that could analyse the evolving situation and suggest policies to enhance relations. However, a thorough inventory of their capacities and interests would be needed.
- d) **Galvanise the interest of peoples:** How are stereotypes to be replaced with the understanding that can only come from direct experience? There are no miracle recipes. Progress can only be slow, but it can be steady if the necessary resources are allocated to galvanise the interest of peoples beyond diplomacy and business. An interesting starting point was the first Dual Year of People-To-People Exchanges, which happened in 2005 with many activities in Japan and the then 25 EU member states.¹⁷⁵ But much more is needed.
- e) **Enhance university exchanges:** With the demand of skills to adapt to the globalising knowledge society, the trend to study abroad is expected to grow exponentially for many years. EU institutions in Japan and Japan centres in the EU are in a position to further promote exchanges of students, faculty and content.¹⁷⁶ Since the first EU Institute (network of universities promoting EU studies) in Japan opened in 2004, academic exchanges have noticeably grown.¹⁷⁷ The Institutes' next phases should aim to offer fuller EU degrees within international relations/studies departments. Correspondingly, Japan, Asian, and other regional studies should be available in international studies programmes in Europe.
- f) **Enhance exchanges at school level:** Japan has offered International Baccalaureate (IB) since 1979 in a few schools mainly to overseas students, but in 2014, the government announced a new plan is to set up bilingual IB for up to 200 high schools by the end of this decade. Japan could also test special EU-International-Japan Baccalaureates in collaboration with EU member state schools in Japan and European schools offering European Baccalaureates in the EU.¹⁷⁸ Meanwhile, some European schools in the EU could start becoming Euro-global schools by offering some Japanese content in collaboration with existing Japanese schools in Europe.

¹⁷⁵ www.euinjapan.jp/en/programme/exchange/; www.mofa.go.jp/region/europe/eu/report/

¹⁷⁶ Lucia Montanari & Hana Umezawa. 2014. "Academic Relations between the EU and Japan; Current Status and Future Prospects", EIAS Briefing Paper 05, September. Brussels, http://eias.org/sites/default/files/EIAS_Briefing_Paper_2014-5_Montanari_Umezawa.pdf

¹⁷⁷ www.euinjapan.jp/en/relation/academic/

¹⁷⁸ www.EURSC.eu

- g) **Promote tourism:** European and Japanese governments should encourage the development of more foreign tourism. Several EU member states are leading powers in tourist services, and Japan is rushing to receive millions of people for the Summer Olympic Games to be held in Tokyo in 2020. As normal tourists usually stay for just a few days to visit the most emblematic sites, more work should be done to attract tourists to new destinations, offering activities like sports, nature, health or even short-term work in rural areas.

- h) **Promote media links:** To help broaden the minds of people who cannot travel, the EU and Japan could promote mutual content in the media. It is time to go beyond the trite offers like travel documentary on Florence or Kyoto or the odd political discussion on some crisis. It is prime time to focus on more balanced current events in the news. Moreover, let's promote common children programs and family sitcoms, and even weather forecasts with a more global outlook in which strategic partners are highlighted.

