

**JAPAN AND THE EUROPEAN UNION:
CHALLENGES AND COOPERATION
IN TIMES OF CRISIS**

Edited by Justyna Szczudlik-Tatar, Artur Gradziuk

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Introduction

At the end of the 20th century, the “Triad” concept of a trilateral relationship between the developed North—the U.S., the EU and Japan, then the three major powers in the world economy—slowly began to undergo changes. Several factors led to that process of modification, the most important among them being the appearance of “new regionalism” in the form of NAFTA and a deepening of the European Union integration, and the emergence of East Asia as the new dynamic centre of the world economy. Hence, the old concept of the “Triad” was replaced with the new one of North America, Europe and East Asia. This concept became the major feature of the new international order, in which triangular relations between the three regions had a decisive impact on international political and economic relations. Although Japan remained the major partner for Europe in East Asia, the EU began to focus on developing its relations in the inter-regional framework of the ASEM group, of which Japan is member.

The first decade of the 21st century brought additional changes to the world order, with the emergence of powers from the developing world (China, India, Brazil and others), and the resurgence of Russia, as new influential forces in international relations. That trend accelerated after the global economic and financial crisis of 2008-2009, which hit the developed economies of North America and Europe especially hard, and led to the strengthening of the relative global position of emerging powers. The concept of the “Triad” became increasingly irrelevant, as well as the rich North – poor South divide. Furthermore, the rapid economic development of China, which in 2010 overtook Japan as the second biggest economy in the world, alongside its more active foreign policy and military build-up, began to pose a new challenge to the established powers. So the new concept of a “Triad” consisting of the U.S., the EU and China seemed more relevant, however talk about the G2 (the U.S. and China) appeared more often in

discourse, thus challenging the global position not only of Japan, but even of the European Union.

In times of economic crisis and a shifting balance of global power, Japan and the European Union face new challenges both internally and in terms of bilateral cooperation. Internally, the most pressing issues for Japan are reform and revival of the economy after almost two decades of stagnation, and rethinking foreign policy to address its position in the region and the world, also taking into account the context of new security challenges. For the European Union, the most urgent task is to solve its sovereign debt crisis and re-adjust its economic governance model, but it must also activate its common foreign policy in order to enhance its position in the world. In bilateral cooperation, the main challenges lie in finding ways to strengthen political and economic relations, and new areas and modes of cooperation that would not only be beneficial for both sides, but would also vindicate their positions on the international stage.

This book addresses the main challenges and opportunities (in the short term and medium term) for Japan and the EU, and for their relations, arising from political and security developments in East Asia, global economic changes, and the situation in the EU. The authors have tried to answer the questions of how the EU-Japan (EU-Asia) relationship should evolve to become more effective, what should be done to make the expectations of the EU and Asia more convergent, and what undertakings are required in order that the EU summits with Asia's main partners might bring tangible results for both sides.

The first chapter focuses on Japan's fundamental problem: its economy. **Nobuhide Hatasa** indicates that there are at least three reasons for the stagnation of the Japanese economy. These are the end of the so-called "population bonus period" leading to increased labour shortages, decreased saving rates and economic growth potential; huge government debts (for example, 180% of GDP in 2010); and the lack of strong leadership in Japan. Nonetheless, reconstruction efforts after the earthquake and tsunami in Japan in March 2011, the low risk of sovereign debt default due to domestic sources of debt financing and huge amount of foreign assets combined with stable economic cooperation with Asian states—Japan's main export markets—are factors that offer positive prospects for the economy. In order to overcome economic stagnation, author suggests attracting foreign demand through free trade agreements, facilitating domestic demand—notably by attracting foreigners to Japan, tackling government debts by reorganising

state institutions (thereby offering the possibility of limiting public spending), increasing taxes, and empowering the political leadership to secure stability on the Japanese political scene.

In the case of the world economy, the recent economic and financial crisis intensified the debate about the necessity to work out and implement a coherent global economic governance system. In the second chapter, **Paweł Wojciechowski** offers an examination of the situation in the European Union, especially the recent experience of dealing with the debt crisis in the eurozone, as a lesson for global governance. He argues that the EU's example vindicates the assumption that only the threat of "near collapse" could accelerate governance reforms and strengthen the cohesion and supremacy of supra regulations even to the extent of partly transferring sovereignty to global institutions (for example, by establishing the Stability and Growth Pact, or Six-Pack regulations in the EU). A similar situation was noted on a global level in 2008, after the global crisis erupted. G20, then elevated from the level of finance ministers to heads of states, became the premier forum for global economic cooperation. However, the lack of further urgency to fight with the crisis, along with cooperation based on an informal framework without strong institutionalisation and shared responsibility, made this forum less effective.

Global order modification – the rise of East Asia (especially China) and the decline of the U.S. is the topic addressed by **Yoshihide Soeya** in the next chapter. Author argues that the main factor affecting this transition is China's rise, which is seemingly apparent through two inconsistent trends. The first means that China intends to seek an alternative global order which could replace the current one. The major reason for this endeavor is the so-called Chinese victim mentality, and China's dream of regaining its superpower status. Growing nationalism in the PRC, and the recent acceleration of disputes over territorial rights, for example in the South China Sea, offer arguments that this trend exists. The second trend, which seems to be prevalent in China's decision-making circles, seeks to make modifications within the current global order, of which the PRC is already a part. In Soeya's view it is apparent that the international community should persuade China to focus on this second trend. He indicates that Japan should not be perceived as a great power or counterbalance to a growing China. Hence, Japan's strategy regarding changes in the global order, notably the PRC's rise, should be based on security cooperation, not only with the U.S., a traditional and vital ally of Japan, but also with other Asian states.

China's rise, together with the PRC's increasing military spending and the nuclear threat from North Korea were among factors which influenced Japan's defence policy modifications. In December 2010, the Japanese government released its National Defence Program Guidelines (NDPG). **Axel Berkofsky's** chapter argues that, despite preserving some "old" features, such as maintaining article 9 of Japan's constitution—which states that "the right of belligerency of the state will not be recognized"—renunciation of the right of collective self-defence, and continuation of a defence-oriented security policy, the document also introduced new elements. Among them are the concept of "dynamic" armed forces allowing more flexibility when reacting to quite small scale threats, relocation a part of the Self-Defense Forces (SDF) from the north to the south of Japan, and restructuring Japan's armed forces through the purchase of new equipment and the modification of the defence budget allocation. These changes are perceived as an answer to China's more assertive approach to the East and South China Seas. Author assumes, that despite perceiving Japan as a pacifist country which is vindicated by maintaining its defensive policy with principle of not exporting Japanese weapons and military technology to any state, Japan, in fact, behaves as a "normal," non-pacifist country (e.g. Japan-U.S. defense contractors cooperation, or Japan's refueling mission in the Indian Sea as a support of NATO in Afghanistan).

The next chapters try to look at the state and potential for enhanced EU-Japan cooperation. In a changing world, especially one facing new security threats as well as growing interdependence between Europe and Asia, it seems that EU-Japanese relations are overlapping and becoming indispensable. **Michito Tsuruoka** highlights that the potential for mutual collaboration mentioned in the Action Plan, released after the EU-Japan summit in 2001, has not been properly exploited. He nevertheless underlines examples of closer EU-Japan relations, such as non-combat military cooperation in the Indian Ocean, off the coast of Somalia, and in Djibouti. Furthermore, EU-Japan cooperation is seen as a "non-U.S." factor, which might prove useful in a situation in which the U.S. could not be engaged. But problem in EU-Japan relations remains the mutual invisibility or lack of awareness of the possibility of cooperation—even to the extent of perceiving each other as rivals because of having similar comparative advantages (e.g. as ODA donors). Tsuruoka argues that the institutionalisation of these relations is prerequisite for strengthening mutual cooperation. But the two-track institutionalisation process – signing an EU-Japan FTA on the economic track and a political agreement on the second path could not be

seen as a final stage of bilateral cooperation, rather as a beginning, with particular objectives which should be achieved in a future.

The European perspective on EU-Japan and Europe-Asia relations is presented by **Nicola Casarini**. He underlines that the rising international economic and political status of Asia—a continent including emerging powers such as China, India, South Korea and Indonesia—and Europe, which despite the crisis is an indispensable economic partner for Asia, create fertile soil for strengthening cooperation between these two continents. By analysing the growing interdependence between Asia and Europe at a time of crisis, Casarini highlights that, as far as the economic dimension is concerned, cooperation is not limited to increasing mutual trade and investments. Asia is also interested in monetary cooperation through investing in the euro as a new reserve currency. Moreover, both sides are strengthening security cooperation. It seems apparent that Europe plays an important role in Asia as a provider of soft security through humanitarian and development aid, assistance in peace-building processes, and more. But Europe is also active in hard security through increasing arms sales to the region (despite the so-called EU's China arms embargo) and space technology collaboration. The rising interdependence between Asia and Europe modifies the traditional roles of the two continents. Asia is becoming a notable investor in Europe, while Europe is becoming Asia's hard security and dual-use technology provider. Any economic or political crisis in either region may seriously affect both economies. Due to different expectations in Asia about Europe's role in the region, and to a lack of a coherent EU Asia strategy, more discussion between the two sides is necessary in order to avoid misunderstanding and to find satisfactory solutions.

Another interesting avenue for closer cooperation is development assistance. The European Union, which is often perceived as a civilian power and important provider of official development assistance (ODA), and Japan, where ODA since the end of the 1970's has been a significant part of Japan's foreign and security policies, could cooperate with each other on this area. **Marie Söderberg** presents the main characteristics of Japanese ODA and stresses the areas of potential EU-Japan ODA cooperation. She recommends, for example, cooperation in South Sudan or Mindanao island in the Philippines, within the framework of the Busan Partnership signed by the European Union and Japan at the fourth High Level Forum on Aid Effectiveness in Busan, in December 2011.

The last chapter of the book adds the promotion of democratic values as another area of potential cooperation between the European Union and Japan. **Tomasz Łukaszuk and Tomasz Jamróz** indicate the general weakness of the EU-Japan relations, as manifested in the concentration on signing a wide range of protocols and declarations which result in few examples of concrete actions. Furthermore, both sides were deeply focused on developing relations with new emerging powers, to the detriment of closing ranks to reshape the world order in a way that would take into account the main challenges facing global security and convince those new global players to shoulder more responsibility. The authors propose the undertaking of a few flagship projects in the area of promoting democracy, in which Poland has unique expertise, directed at various regions (Eastern Europe, South-east Asia, North Africa) that would add tangible value to EU-Japan cooperation and contribute to more a transparent and predictable world order.

Inevitably, there exists huge potential for closer cooperation between the European Union and Japan. Changes that take place in the international order in connection with the effects of economic crisis which prompt a search for solutions both to economic problems in the EU and Japan and to new security challenges, offer incentives to pursue such cooperation. The authors of this volume provide some valuable ideas and recommendations which, if implemented, should contribute to filling the gaps in untapped opportunities for better relations between the EU and Japan, to the benefit of both sides.

The papers assembled in this volume were prepared as a contribution to the conference “Facing the Challenges of the New Global Order: A Japanese Perspective,” hosted by the Polish Institute of International Affairs on 10 October 2011, which gathered together renowned Japanese and European scholars. We would like to thank the Japan Foundation for a grant that facilitated the organisation of the conference and publication of this book, as well as the authors of the papers whose contributions should help better understand the challenges and opportunities for development of EU-Japan cooperation in times of crisis.

Artur Gradziuk, Justyna Szczudlik-Tatar

Nobuhide Hatasa

Japan's Stagnant Economy: Ways to Move Ahead

Introduction

We are now in the middle of world economic transition: the great economic powers such as Japan, the U.S., and the EU are currently being challenged by newly developing countries including China, India, Brazil, and Russia. The global economy, which used to be led mainly by Japan, the U.S., and the EU, is facing great change, which might prove to be a historic economic event depending upon how these three great powers tackle on their serious and deeply-rooted economic problems. The economy of Japan, one of the three big powers, was the first to stumble drastically, after the bubble burst in the beginning of the 1990s, and it has not yet completely recovered. The next failure was the U.S., where the economy slumped markedly in 2007-08, after its subprime mortgage crisis. When the mortgage bubble burst in the U.S., it had tremendous negative economic impacts on other countries and regions, and it eventually caused the global financial crisis. Finally the EU, having been seriously damaged by the world financial crisis, experienced its own fiscal crisis and its economy has no way to achieve high growth in the next decade or so.

Because the economic problems that the U.S. is experiencing are somewhat similar to those of Japan, the U.S. is now making a great effort to avoid "Japanisation," that is to say, to avoid Japan's economic path of the past 20 years since the bubble burst in the 1990s. Japan's policy regarding economic recovery has long been criticised by the U.S., and now Japan is watching how the U.S. is managing its economic problems and recovery.

The difficulties faced by the EU are rather different from the economic problems that Japan and the U.S. are tackling, since the issues are mostly

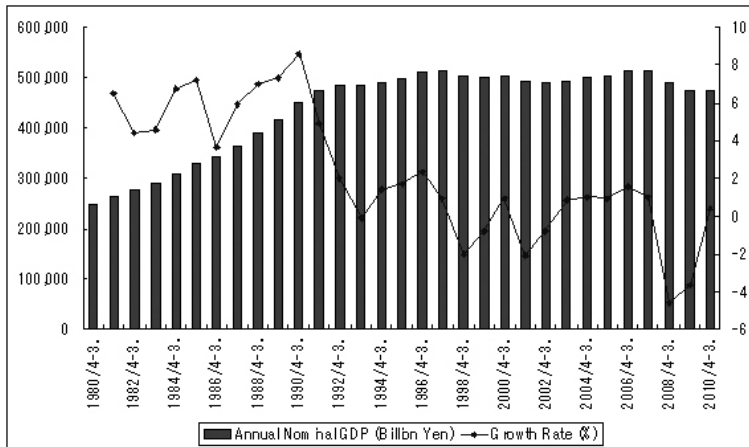
attributed to the mechanism of economic integration itself. The current fiscal turmoil in the EU reflects the difficulties of economic integration between countries that are economically weak and those that are strong. However, the situation in the EU is not at all irrelevant to Japan. In fact, Japan's fiscal deficit is much larger in volume than that of the EU countries where debt crises triggered excessive risk aversion on the global financial markets and stymied the EU economy—along with the economies of other countries and regions that have financial links with the EU.

In this regard, Japan's economic experiences are relevant to both the U.S. and the EU. Understanding the Japanese economic situation and the nation's problems is important to knowing how these big economic powers can retain global economic influence, and in anticipating the way in which a global economic power shift may occur in near future. In this paper, the author first looks at the current conditions of the Japanese economy, and how it has been waning compared with other countries. Three structural and domestic factors that seem to be the most significant explanations of the long term economic stalemate in Japan are then explored. Though Japan has suffered from low growth in its economy for a long time, it still maintains positive growth overall and is rather doing well compared to other developed countries. These positive trends of the Japanese economy are examined in the third section of this paper. In the fourth section, the author highlights several important policy targets, which may prove to be effective solutions to the current structural and domestic problems Japan is facing, and means by which it may boost its economy.

Japan's Economic Status

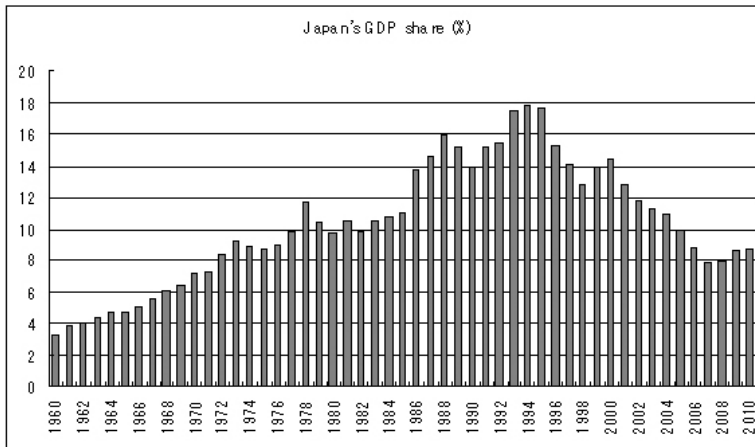
It is often said among people in Japan that the country lost the past 10 or 20 years, meaning that no economic progress has been made since the bubble burst in the 1990s. Figure 1 illustrates this economic situation. Japan's annual nominal GDP, which had been increasing up to the beginning of the 1990s, has been stable for the last two decades. The Japanese economy was devastated when the bubble burst, and subsequent global economic events such as Asian financial crisis and world financial crisis also had a negative impact. Its GDP in 2010 was almost equivalent to that of 1991 in volume, indicating that Japan made no economic progress in the past 20 years.

Figure 1. Japan's GDP



Source: Cabinet Office, www.esri.cao.go.jp.

Figure 2. GDP Share



Source: The World Bank, World Development Indicators, <http://data.worldbank.org/indicator/>.

Comparative analysis shown in figure 2 presents a still gloomier perspective of Japan's economy. Its GDP world ranking peaked in 1994 and then started to decline dramatically. In 2010, its share was only about 9%, half what it was at its peak, and similar to its level in the middle of the 1970s. Japan's economic power in the world is now assumed to be equivalent to what it was 40 years ago. Table 1 indicates a GDP ranking of the top 20 countries in 1994 and 2010. Japan, ranked second in 1994, is now the third wealthiest country in the world, behind the U.S. and China – which overtook Japan in 2010, for the first time since Japan acquired its

second-place ranking in 1972. Countries coloured grey in the 2010 GDP ranking are those which rank higher compared to 1994. The BRIC countries, as well as other G20 countries such as Turkey and Indonesia, are successfully extending their economic power in the world. It is also notable that Poland is now placed 19th in the GDP ranking. Table 2 presents in depth the deterioration of Japan's comparative global economic status. The ranking of Japan's GDP per capita declined drastically, from 5th in 1994, to 22nd in 2009.

Table 1. GDP (Current US\$ Billion) Ranking

Rank	Country Name	1994	Rank	Country Name	2010
1	United States	6,993	1	United States	14,582
2	Japan	4,779	2	China	5,879
3	Germany	2,146	3	Japan	5,498
4	France	1,368	4	Germany	3,310
5	United Kingdom	1,061	5	France	2,560
6	Italy	1,054	6	United Kingdom	2,246
7	Canada	564	7	Brazil	2,088
8	China	559	8	Italy	2,051
9	Brazil	546	9	India	1,729
10	Spain	515	10	Canada	1,574
11	Korea, Rep.	423	11	Russian Federation	1,480
12	Mexico	422	12	Spain	1,407
13	Russian Federation	395	13	Mexico	1,040
14	Netherlands	351	14	Korea, Rep.	1,014
15	Australia	327	15	Netherlands	783
16	India	324	16	Turkey	735
17	Switzerland	270	17	Indonesia	707
18	Argentina	257	18	Switzerland	524
19	Belgium	242	19	Poland	469
20	Sweden	218	20	Belgium	467
32	Poland	99			

Source: The World Bank, World Development Indicators, <http://data.worldbank.org/indicator/>.

While Japan has been struggling to manage its economy, emerging countries have achieved high economic growth and are now catching up with Japan and other developed countries. Its economic volume is not decreasing at all, but remains stable; therefore, it can still maintain its position as the

third economic power in the global market. However, its relative power has decreased remarkably due to the fast economic growth in the number of developing countries. Japan, whose economy used to be featured as a 'rising sun' and watched cautiously by other developed countries as a dominant economic power, has lost its growth impetus and is no longer powerful enough to lead the global economy. The global economic power structure has been changing in recent years, as Japan's economy has been stagnating and its relative economic power has been waning.

Table 2. GDP per capita (Current US \$) Ranking

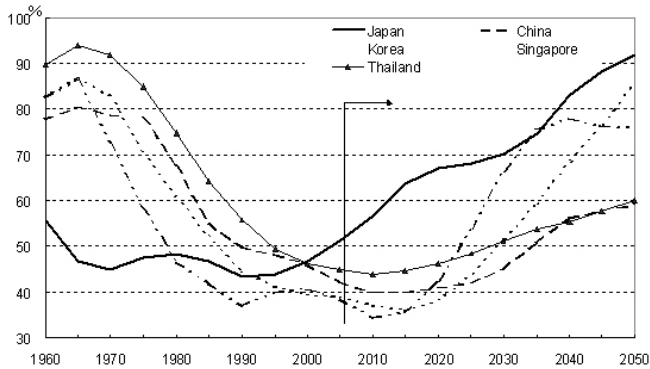
Rank	Country Name	1994	Rank	Country Name	2009
1	Monaco	89,705	1	Monaco	186,175
2	Liechtenstein	63,748	2	Liechtenstein	134,392
3	Luxembourg	43,561	3	Luxembourg	106,237
4	Switzerland	38,636	4	Bermuda	88,747
5	Japan	38,244	5	Norway	78,436
6	Bermuda	30,459	6	Qatar	69,754
7	Denmark	29,509	7	Switzerland	63,629
8	Norway	28,714	8	Denmark	55,871
9	United States	26,578	9	United Arab Emirates	50,070
10	Germany	26,330	10	Ireland	49,833
11	Austria	25,375	11	Netherlands	48,066
12	Sweden	24,776	12	United States	45,745
13	Belgium	23,882	13	Austria	45,562
14	Iceland	23,665	14	Finland	44,581
15	France	23,110	15	Belgium	43,671
16	Netherlands	22,833	16	Sweden	43,389
17	Hong Kong SAR, China	22,458	17	Australia	42,279
18	Singapore	20,672	18	Germany	40,670
19	Finland	19,760	19	France	40,663
20	Canada	19,390	20	Macao SAR, China	40,404
21	Italy	18,540	21	Canada	39,599
22	United Kingdom	18,328	22	Japan	39,456
23	Australia	18,288	23	Iceland	37,905
24	Greenland	18,124	24	Singapore	36,758
25	United Arab Emirates	16,639	25	United Kingdom	35,143

Source: The World Bank, World Development Indicators, <http://data.worldbank.org/indicator/>.

Domestic Structural Challenges

Internal and external economic shocks—though their impacts have undoubtedly and dominantly been great—have not been the sole causes of Japan’s stagnating economy over the past 20 years. There is another critical social and structural factor that has had a marked influence on Japan’s economic circumstances. Its population bonus period ended in 1990 as figure 3 and 4 describe. Population bonus periods are defined as those periods during which the dependent population index continues to decrease—the dependent population index being the ratio of the non-working population to the working population aged between 15 and 64.

Figure 3. Dependent Population Index



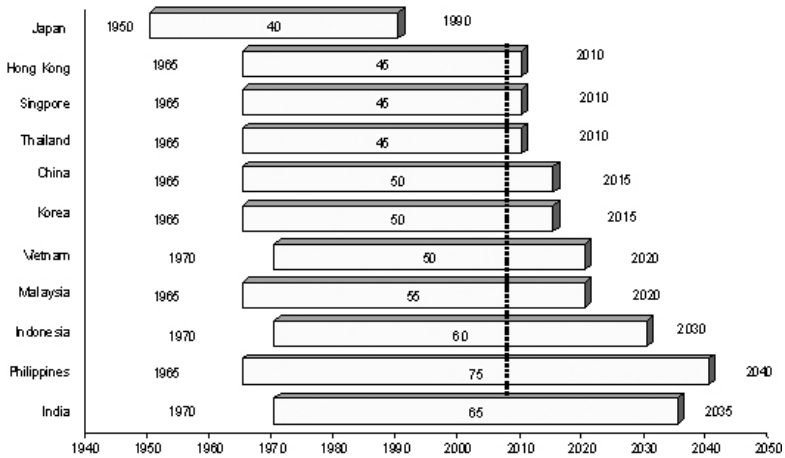
Note: Dependent population indexes = (Young population [0-14] + Elderly population [65-]) / Working age population [15-64].

Source: T. Komine, “A Long-term Forecast of Demographic Transition in Japan and Asia,” 19th PECC General Meeting, Concurrent Session 1: Demography / Ageing Societies, October 21st, 2010.

An increase in the dependent population means relatively more dependent and less economically active people aged under 15 or over 64. This tends to induce a decline in economic growth potential, intensifying labour shortage and decreasing savings rate. It can also be observed that an increase in the dependent population puts heavy pressure on social security systems, due to the extra burden on pension and medical expenses. Japan’s bonus period started around 1950, and ended in 1990 (figure 4), and since then Japan has been in a population bonus period. Ironically, Japan’s economic bubble burst at the same time as the end of the population bonus period, at the beginning of the 1990s. This structural and domestic demographic shift in Japan had nothing to do with economic shocks of the past 20 years, and could not be altered by any kind of economic stimulus

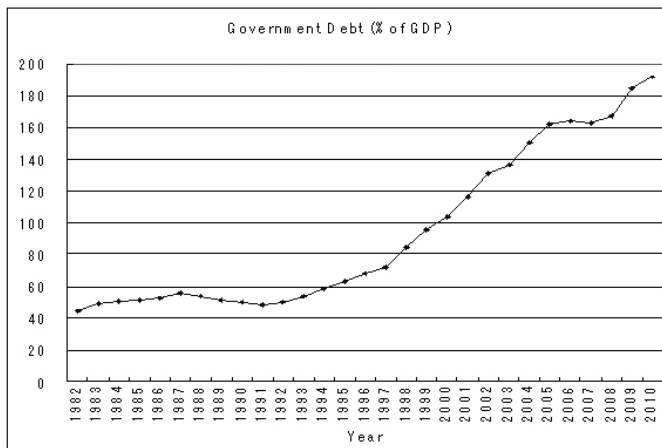
policies enforced after 1990. This economically negative population trend has been present for the last 20 years or so and is expected to become even worse in the near future.

Figure 4. Population Bonus Periods



Note: Population bonus periods defined as periods during which dependent population indexes continue to decrease. Figures measured at five-year intervals.
 Source: T. Komine, "A Long-term Forecast of Demographic Transition in Japan and Asia," 19th PECC General Meeting, Concurrent Session 1: Demography / Ageing Societies, October 21st, 2010. United Nations, *World Population Prospects*.

Figure 5. Japan's Government Debt



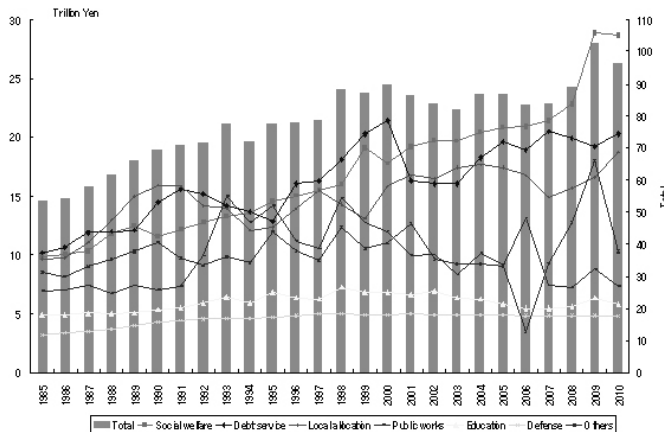
Source: Bank of Japan and Cabinet Office.

The second domestic and structural factor that slows Japan's economic growth is the upward surge of government debts. Figure 5 illustrates the

annual trend of government debt stock as a ratio of GDP. The level of debt was relatively stable at around 50% of GDP before the economic bubble burst; however, it has been increasing since the early 1990s, mostly due to fiscal stimulus policies introduced to help restore the flagging Japanese economy. Japan has somehow been able to maintain a relatively stable economy, not experiencing a sudden and harsh depression, because of these fiscal investments, but at the same time it could achieve neither high economic growth nor total recovery from a sluggish economy.

This continued growing national debt can be attributed not only to economic stimulus policies, but also to increasing costs of pensions and medical expenses for the elderly. The end of the population bonus period in 1990 had a severe and negative effect on the national fiscal conditions, and continues to do so. Figure 6 depicts annual government expenditures in Japan's General Account Budget. It is important to note that the level of expenditure on public works, spending which is usually and traditionally increased when the government intends to boost its economy and implements fiscal expansion measures in order to stimulate the economy, went up in 1992 (just after the bubble burst), and remained relatively high during the 1990s, only to fall at the beginning of the 2000s to a level equivalent to that of the 1980s. On the other hand, government spending on social welfare has continued to increase, and taking the largest proportion of the budget expenditure in 2001.

Figure 6. Government Expenditures



Source: Ministry of Finance, www.mof.go.jp.

In 2000, Japan's government debt as a percentage of GDP was the highest among the seven advanced countries (figure 7). According to the

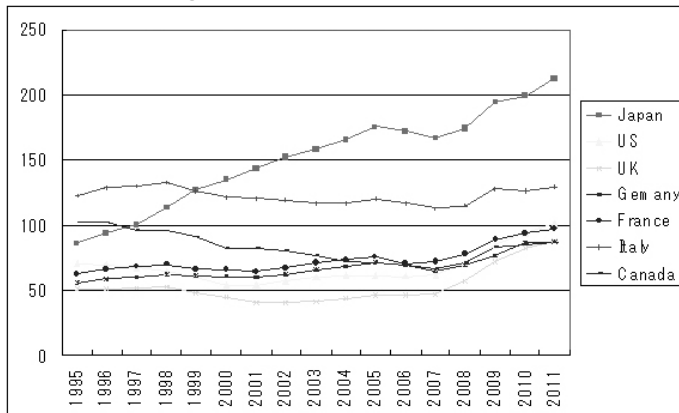
Central Intelligence Agency's World Factbook, Japan ranks second in the world in terms of the ratio of government debt to GDP (table 3). Its fiscal condition is even worse than that of Greece and other euro zone countries, which are suffering from huge government debt and have triggered credit uncertainty and economic turmoil in the EU and around the world. Japan's ratio of government debt to GDP is a little lower than Zimbabwe's, but it is very likely that its fiscal condition will soon be the worst in the world due to additional public spending on the reconstruction of northern part of Main Island, severely damaged by an earthquake and tsunami, and to the fact that the current government may not be able to make any drastic and practical policy changes to help reduce the chronic fiscal deficit in the near future.

Table 3. Government Debt (% of GDP) Ranking, Worst 20

Rank	Country Name	%
1	Zimbabwe	234
2	Japan	198
3	Saint Kitts and Nevis	185
4	Greece	143
5	Lebanon	134
6	Jamaica	127
7	Iceland	126
8	Italy	119
9	Singapore	106
10	Barbados	102

Rank	Country Name	%
11	Belgium	101
12	Ireland	97
13	Portugal	93
14	Sudan	93
15	Canada	84
16	Germany	83
17	France	82
18	Sri Lanka	82
19	Hungary	80
20	Belize	80

Figure 7. Government Debts in G7



Source: Ministry of Finance, www.mof.go.jp. OECD "Economic Outlook 89" (June, 2011).

This implies that the government of Japan, with the largest accumulated fiscal debt in the world, no longer has any room for allocating its budget towards additional economic stimulus measures. In fact, Japan has not been able to implement a Keynesian demand policy to stimulate expansion since the 2000s, though it spent more money than usual to economic stimulus policies during the decade that followed the burst of the economic bubble. Continuously rising expenditure on social welfare and debt servicing will not allow the Japanese government a high degree of freedom to allocate national budget resources to economic expansion. It is neither realistic nor possible at this moment to expect that abundant and sufficient public spending can remedy the Japanese economy's two-decade slump.

The third significant internal factor that makes complete recovery of Japanese economy very difficult is the lack of political leadership in Japan, notably over the past five years. Table 4 lists Japan's prime ministers since Junichiro Koizumi, whose tenure, at 1,980 days, was the third longest after World War II. Since his departure in 2006, Japan has had a different leader almost every year. When a new prime minister is inaugurated, several advisory councils, which consist of politicians, bureaucrats, and experts from private institutes, nominated and elected by the government, are established in order to discuss and decide the main frameworks of important policies under the auspices of the prime minister. Since it normally takes a few months or so for these councils to reach conclusions and announce their final directions, one year is not enough time to implement the policies recommended by the advisory members. This means that no influential and important policies can be carried out when leaders have such short terms.

Table 4. Japan's Prime Minister after 2001

No. of days	Tenures	Name
1,980	April 26, 2001 – September 26, 2006	Junichiro Koizumi
366	September 26, 2006 – September 26, 2007	Shinzo Abe
365	September 26, 2007 – September 24, 2008	Yasuo Fukuda
358	September 24, 2008 – September 16, 2009	Taro Aso
266	September 16, 2009 – June 8, 2010	Yukio Hatoyama
452	June 8, 2010 – September 2, 2011	Naoto Kan
?	September 2, 2011 – ?	Yoshihiko Noda

In fact, there have been no major economic policy changes since Koizumi's privatisation of the national postal service and partial liberalisation

of the labour markets. Many Japanese social policies and systems, including employment practice and social welfare, are designed to function under circumstances of continuous and stable population and economic growth. When the bubble burst in the 1990s, it heralded a sudden and lasting economic downturn in Japan for the first time since the end of World War II. It is definitely time to reorganise and revise such social and economic policies and systems, in order to make them work efficiently and practically under the current unstable economic conditions.

The worse an economic situation becomes, the stronger political leadership a country needs. Recently, Japanese politics has lacked such leadership, without which the government has not been able to touch upon important economic reforms in labour markets and social security. Restructuring public organisations and reducing the number of public servants and politicians are the main and urgent themes that the government should tackle for the revitalisation of national fiscal conditions but these reforms continue to be postponed due to severe opposition from people with vested interests, combined with a lack of powerful political leadership.

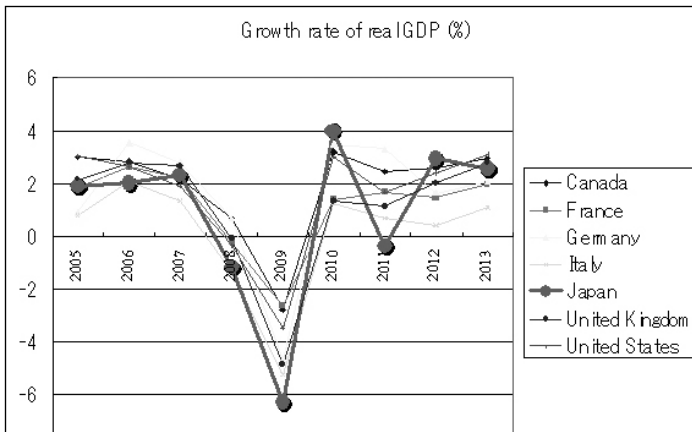
Positive Prospects for the Japanese Economy

Though Japan has very difficult domestic and structural problems, there are several positive factors that may have a robust influence on sustaining the Japanese economy. Figure 8 describes the growth rate of real GDP in seven advanced countries. Japan's growth rate fell sharply in 2008 and 2009, as did that of other countries, because of the global financial crisis; however, it achieved its highest growth rate in 2010, reaching up to 4%. Then, it fell again in 2011 due to the negative economic impacts of the Great East Japan Earthquake, which hit on March 11th. It is nevertheless assumed that Japan's economic growth will be positive in 2012, since a significant amount of financial resources are planned for investment to help the recovery and reconstruction of the damaged areas. The economy in the U.S. and Canada is expected to return to normal after a few years, but European nations will continue to suffer from unstable and unforeseeable economic situations due to ongoing fiscal turmoil in euro member countries. A strong yen against the US dollar and the euro is one of positive market indications that Japan's economy, even in such unfavorable situations, is relatively more promising than that of the U.S. and the EU.

Japan's government debt as a proportion of GDP is much higher than that of even those EU countries which are currently being supported financially

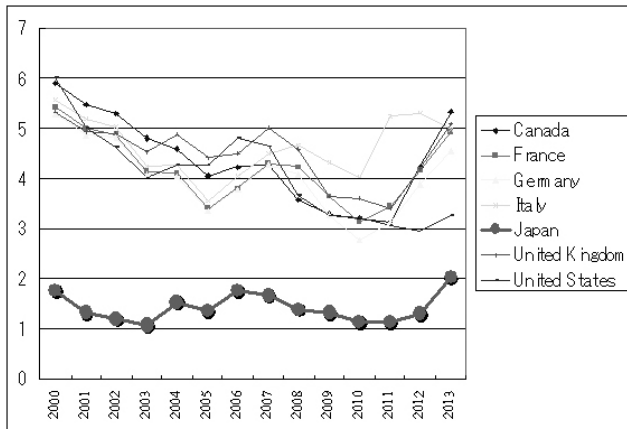
by the international community, and is the largest among the advanced countries. The interest rate on Japanese government bonds, however, remains lower than in other developed countries. A low interest rate suggests that markets evaluate the default risk of the bond to be very small. Figure 9 illustrates that the interest rate on 10-year government bonds in Japan remained stable, at between 1% and 2% during the 2000s. On the contrary, the rates in the other six advanced countries of G7 are substantially higher than Japan's, fluctuating between 3% and 6% depending on the year in question. Credit rating agencies recently downgraded Japanese government bonds, but the interest rate did not rise sharply.

Figure 8. Growth Rate of Real GDP



Source: Oxford Economics.

Figure 9. Interest Rate of 10 Year Government Bonds

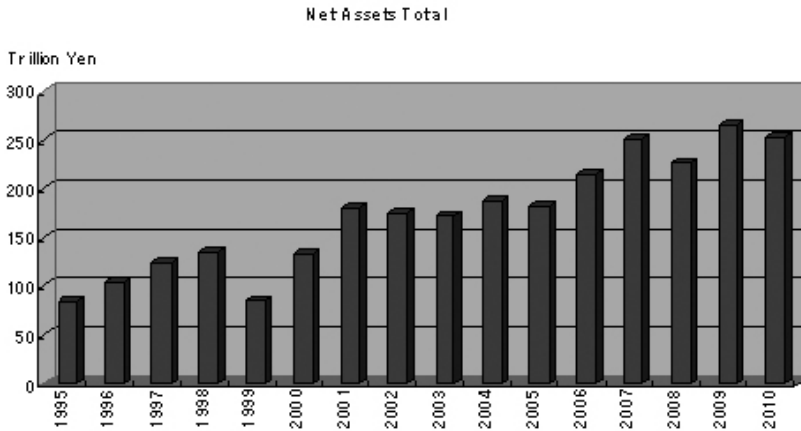


Source: Oxford Economics.

There are the three main reasons for the relatively higher credibility of Japanese government bonds:

Firstly, Japan has much room for tax increases, through which it will be able to service the tremendous level of government debt. The consumption tax is 5%, considerably lower than that of other advanced countries, and there is a belief that Japanese government can raise this tax whenever it really needs to reduce its debt.

Figure 10. Net External Assets in Japan



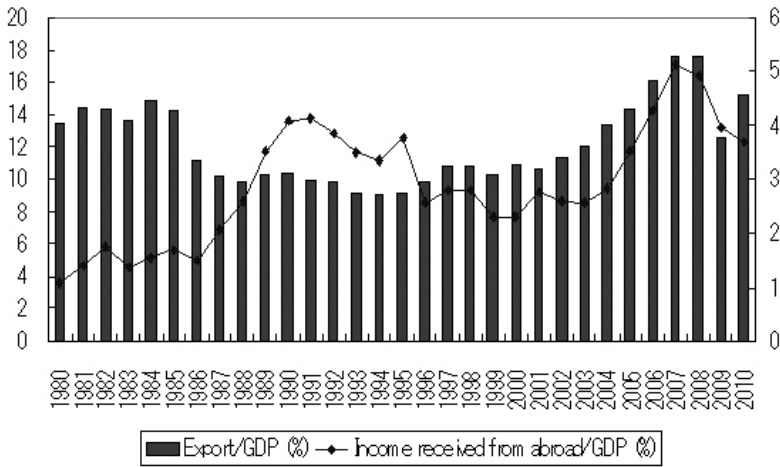
Source: Ministry of Finance, www.mof.go.jp.

Secondly, the Japanese economy is still considered to be strong compared with other countries in the world. It has a high level of debt internally, but at the same time it has made many loans to foreign countries. Figure 10 describes Japan's external net assets from 1995 to 2010. Even though Japan experienced an economically hard time after the bubble burst, those assets grew. In 2010, they amounted to 251 trillion yen. If the government debt is viewed in comparison to these assets, the level of Japanese government debt in 2010 stood at 479 trillion yen and, as a proportion of GDP, was 139% rather than 192%. The Japanese economy is very competitive in the international market and earns a lot from the global economy. This external competitiveness goes a long way towards explaining the reliability of Japanese government bonds on the markets.

Finally, most Japanese government bonds are owned domestically, by Japanese citizens. In 2009, only 5% of Japanese government bonds were owned by foreigners, while approximately a half of the U.S.'s and

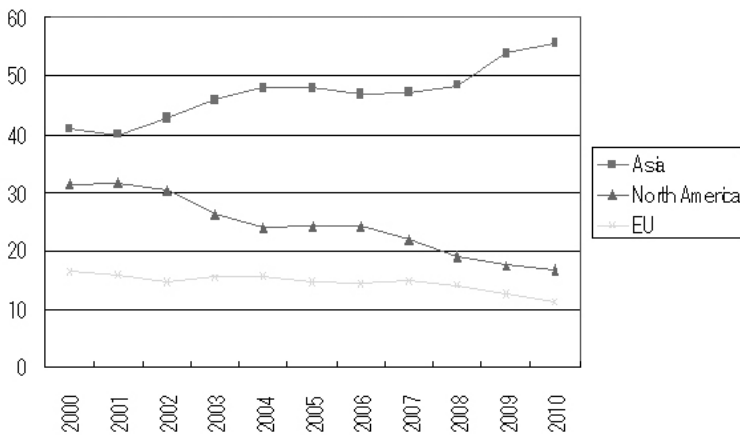
Germany's—and 30% of the UK's and France's government bonds—were owned by foreign investors. Abundant domestic demands on government bonds in Japan make it easy to sell and refinance the bonds. As long as the supply of government bonds is taken up by the domestic investors, there is no need to look for foreign investors whose investment behaviors are rather deliberated, and who tend to seek higher returns due to the foreign exchange risks they take on investments.

Figure 11. Exports and External Incomes



Source: Cabinet Office.

Figure 12. Regional Exports



Source: Bank of Japan.

Since the bubble burst and the end of the population bonus period, Japan has been successfully relying on foreign demand by maintaining close economic relationships with emerging Asian economies in particular. The decline of domestic demand and shrinking domestic markets in Japan due to an aging and decreasing population and to the aftershocks of the bubble bursting, are partially offset by the incorporation of external demands and an increase in external earnings. Figure 11 shows an upward trend in Japanese exports and external incomes after the middle of the 1990s. Figure 12 clearly indicates that most of the rise in exports can be accounted for by increased demands in Asia. Japan's regional share of exports to Asia rose continuously in the 2000s. It is very fortunate for Japan that the neighboring Asian countries, with which it has established close economic relationships, are in the midst of economic growth during a time when Japanese economy is suffering due to depressed domestic demands.

Future Policy Targets

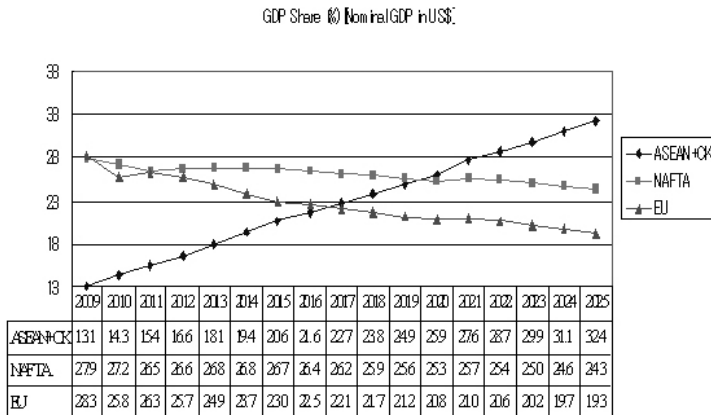
Japan has so far managed its economy by maintaining stability for the past 20 years, without experiencing a great depression and social turmoil. However, active implementation of more effective and innovative policies is needed, in order to maintain the current level of its economy and to develop further. If Japan wants to recover completely from its economic stagnation, it needs drastic policy changes that lead to the transformation of its domestic industrial structure and social and political systems. These revolutionary policy reforms may involve huge social costs and strong protests from interest groups. In this section, the author would like to offer several important policy targets that may be necessary for Japan if it is to maintain and further develop its economy.

Attracting Foreign Demand

Because the Japanese economy cannot rely on the domestic market, which is expected to shrink over the coming few decades, or on government spending, the only demands that Japan can count on are external ones. This is the easiest and fastest way for the Japanese economy to maintain the status quo in the short term. Though the impetus of economic growth in some of Asian countries seems to have slowed down recently, the economic potential of Asian markets are intriguingly great. Figure 13 shows the regional share of GDP in the world. GDP in Asia, consisting of ASEAN,

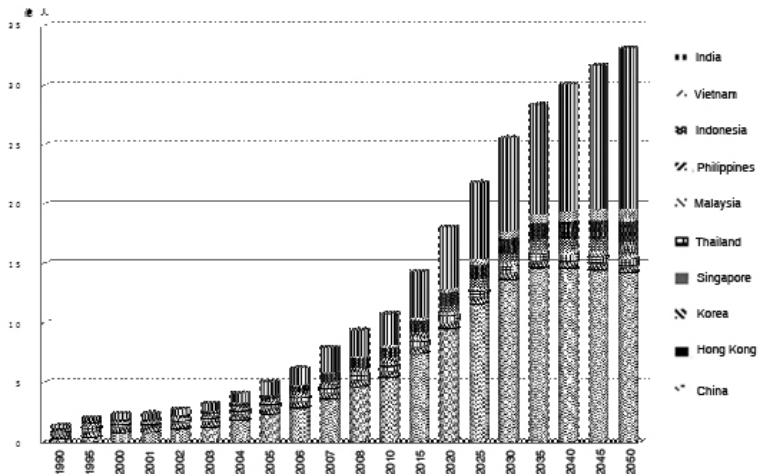
China, and Korea, will surpass that of the EU in 2017, and of NAFTA in 2020. Middle and higher income class sections of the population, whose income is more than \$5,000, will increase more than threefold from 2010 to 2050 (Figure 14). It is vital for Japan to attract these growing demands continuously and strategically, in order to revitalise its economy.

Figure 13. Regional GDP



Source: Oxford Economics.

Figure 14. Middle and Higher Income Class Populations in Asia



Source: Calculated by the author.

Japan has been actively and strategically involved in the worldwide trend towards the formation of regional trade agreements. It has been negotiating bilateral and multi-lateral Free Trade Agreements (FTAs) / Economic

Partnership Agreements (EPAs)¹, mainly with East Asian countries, since it implemented its first EPA with Singapore in 2002. Japan has to date concluded thirteen EPAs, with Singapore, Mexico, Malaysia, the Philippines, Chile, Thailand, Brunei, Indonesia, ASEAN, Vietnam, Switzerland, India, and Peru, and is involved in negotiations with Korea, the GCC, Australia and Mongolia (Table 5). Putting considerable effort into facilitating production networks in Asia, Japan focuses mainly on ASEAN countries for trade agreements, because numerous Japanese companies invest in the region.

Table 5. Free Trade Agreements Concluded or under Negotiation by Japan (as of July 2012)

Concluded EPAs		EPAs under negotiations	
Country or Region	Date signed	Country or Region	Date commenced
Singapore	January 2002	Korea	December 2003 (Suspended in November 2004)
Mexico	September 2004	GCC	September 2006
Malaysia	December 2005	Australia	April 2007
Philippines	September 2006	Mongolia	June 2012
Chile	March 2007		
Thailand	April 2007		
Brunei	June 2007		
Indonesia	August 2007		
ASEAN	April 2008		
Vietnam	December 2008		
Switzerland	February 2009		
India	February 2011		
Peru	May 2011		

□ Future target

■ EU, Canada, FTA, Columbia

■ Region wide FTA

EAFTA [ASEAN+3]

CEPEA [ASEAN+6]

FTAAP [APEC]

TPP

Source: Compiled by the author.

Note: GCC is an abbreviation for Gulf Cooperation Council, which consists of six countries, the UAE, Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia.

¹ In Japan, the term “FTA” is usually distinguished from “EPA.” EPAs are broader in scope than FTAs. In addition to trade in goods, EPAs cover services, investment, and trade related economic rules and regulations such as intellectual property rights, competition policy, government procurement, safeguards, sanitary and phytosanitary (SPS) measures, electronic commerce, dispute settlement, trade facilitation, technical barriers to trade (TBT), the environment, and other areas. Japan promotes EPAs rather than FTAs, and all the regional trade agreements that Japan has concluded so far are EPAs.

The Japanese government's overall efforts in promoting EPAs thus far can be judged as satisfactory; however, it needs to take much more concrete action in order to facilitate external trade and extend foreign earnings quickly and boldly. Japan's EPA partner countries accounted for only 19 % of its total trade in 2010, while the percentage for China and Korea was 20% and 35% respectively.² Table 6 illustrates Japan's 10 biggest partners, and the volume of trade within the respective regional framework. According to this table, Thailand and Indonesia, among the top ten trade partners, are the only countries with which Japan has concluded free trade agreements, but has not yet established EPAs with most of the important trade partners, and this is precisely the serious problem that Japan has to overcome as quickly as possible.

Table 6. Japan's Trade Partners

Rank	Country	Volume (Billion Yen)	Share (%)	Regional Framework	Volume (Billion Yen)	Share (%)
1	China	21,671.60	20.51	APEC	74481.3	70.48
2	U.S.	14,245.70	13.48	ASEAN+6	48554.3	45.95
3	Korea	6,460.80	6.11	ASEAN+3	42899.2	40.60
4	Taiwan	5,109.40	4.84	CJK	28132.3	26.62
5	Australia	4,377.40	4.14	TPP	26635.4	25.21
6	Thailand	3,564.90	3.37	NAFTA	16723.7	15.83
7	Saudi Arabia	3,222.00	3.05	ASEAN	14766.9	13.97
8	Germany	3,116.90	2.95	EU	11775.3	11.14
9	Hong Kong	3,078.10	2.91	GCC	9143.1	8.65
10	Indonesia	2,907.20	2.75			

Note: Member countries of TPP are assumed to be Singapore, Brunei, New Zealand, Chile, Malaysia, Vietnam, Australia, US, and Peru.

Source: Ministry of Finance.

The Trans-Pacific Partnership (TPP) will become a milestone for Japan in demonstrating whether it is adamant about opening its market and facilitating free trade. During the 2011 APEC Leaders' Meeting in Honolulu, Hawaii, Prime Minister Noda stated that Japan would start

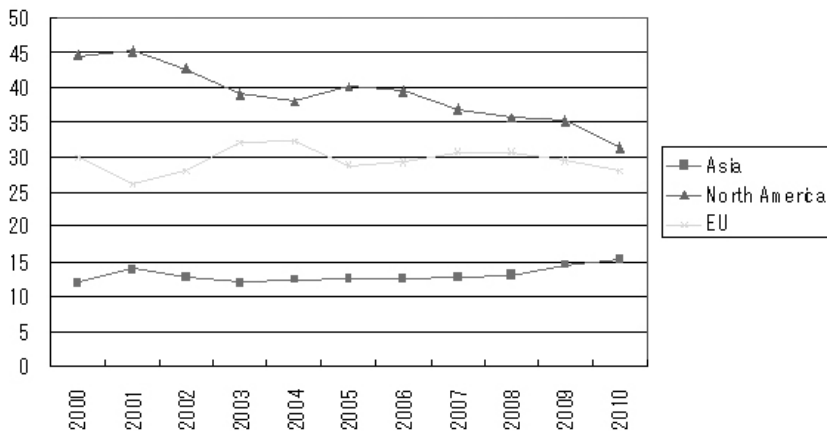
² These figures are calculated by the author using IMF data. See Direction of Trade Statistics 2011. Korea is attempting to establish itself as a hub for FTAs in Asia, and is regarded as a more active promoter of FTAs than China and Japan, in that it has no hesitation in concluding FTAs with large countries like the U.S. and the EU.

preliminary discussions with relevant countries in order to find a way to join TPP negotiations. Among the nine TPP member countries, Japan has already concluded an EPA or has begun negotiations with seven countries; therefore, the other two countries, New Zealand and the U.S., are Japan's new negotiating partners. In fact, the most influential and toughest TPP member is the U.S., which is Japan's second largest trade partner.

The Japanese government is also considering FTA negotiations with China and Korea, the first and second largest trade partners respectively. An industry-government-academia research project for the trilateral FTA between China, Japan, and Korea has been completed and the three countries have agreed to start negotiations soon. The EU, on which approximately 11% of Japanese trade is dependent, is another important trade area on which Japan must focus. Currently, the EU and Japan are in discussions about beginning EPA negotiations in 2012.

If these trade agreements, TPP, a China-Japan-Korea FTA (CJK FTA), and an EPA with the EU, are all realised, more than 70 % of Japanese trade will be covered by FTAs or EPAs, and assumed to be liberalised. The developing Asian nations are definitely important economic partners on which Japan is very much relying, as huge prospective consumer markets. The U.S. and the EU continue to be large, profitable markets, not only in terms of trade, but also of investment. Figure 15 shows that about 30% of Japanese foreign earnings come from the EU and North America respectively. Income coming from Asia has been increasing, but its share is still around 15%.

Figure 15. Regional External Incomes



Source: Bank of Japan.

Facilitating Domestic Demands

While relying greatly on external demands to stimulate economic recovery, Japan also has to adopt long-term policy reforms and enhance domestic demand. Attracting foreign demand has an instant effect, but is not sustainable in the longer term. Increasing dependence on foreign demand leads to an economy that is vulnerable to the conditions of external markets. The most reliable and sustainable way for Japan to maintain economic stability is to have strong domestic demand without relying too much on external demand. Welcoming foreign tourists and students, attracting foreign direct investment, and allowing more immigrants into Japan, are quick ways to enlarge domestic markets, but in the long run the country needs to take serious action to raise total fertility rate.

Figure 16 shows the decreasing trend in Japan's total fertility rate after the end of war. In 2005, it reached a low of 1.26. According to the World Factbook³, Japan's total fertility rate is the fifth lowest in the world, followed by Macau, Hong Kong, Singapore, and Taiwan. The recent slight increases in its total fertility rate can be explained partly by the effect of the second baby boomer generation, born in 1971–74, who are in fact mostly the children of the first baby boomers, born in 1947–49. The second baby boomers reached 30–35 during the past five years, and the birth rate among women aged from 30 to 34 is the highest among all age groups. A relative increase in babies born to the second baby boomers contributed to this rise of total fertility rate in the latter half of the 2000s.

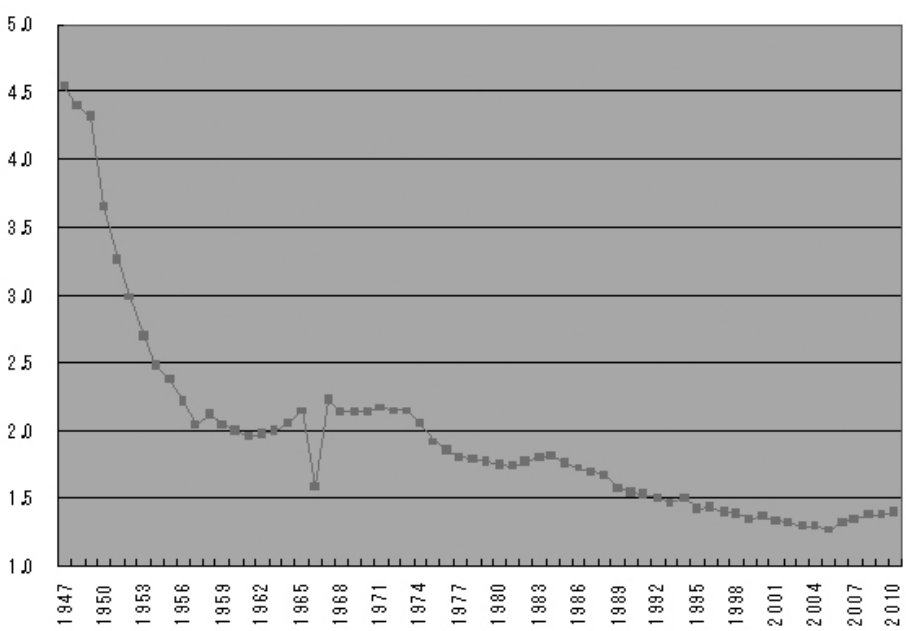
A survey conducted by Lifenet Insurance Company in 2009 indicates that 93.6% of married women aged between 20 and 45 want to have more than two children⁴. It seems that there is a gap between the ideal number of children people want to have, and the actual number of children they can have. The survey also shows that the concern having the greatest impact on people's perception of the ideal number of children is about the economic burdens they would have to bear. More financial aid and material support, including food and housing, are needed for young couples as well as families with children. Because Japan's population is ageing rapidly, more and more financial resources are needed for older people. It is quite difficult for the government, with a very limited national budget, to allocate additional

³ See: The World Factbook, Central Intelligence Agency, www.cia.gov.

⁴ See: Lifenet Insurance Company, www.lifenet-seimei.co.jp.

money to the younger families as counter-measures to the failing birth rate. Furthermore, as the elderly have the right to vote, politicians have more incentives to implement policies favouring this section of the electorate. Demeny voting, a system under which parents or guardians can vote on behalf of their children, is one option that could give policy makers more chances to change their policy stance from the elderly-friendly to the next generation-friendly.

Figure 16. Total Fertility Rate



Source: Ministry of Health, Labour and Welfare, www.e-stat.go.jp.

Recently, there has been an increase in the number of women who want to continue working after having children, and many women have no choice but to work in order to meet shortfalls in household incomes due to salary cuts affecting their husbands. However, there are not enough nursery places and staff to meet the increasing demands. In most companies, working regulations and systems are not effectively designed for employees bringing up children, so it is very challenging in Japan to satisfy the demands of both childcare and work fully and simultaneously. There is an urgent need to move ahead with initiatives to make it easier for workers to pursue both a family life and a career path. Such initiatives include the expansion of day-care services, and the establishment of a law requiring employers to give

workers with young children more flexible working conditions in terms of working hours and location.

Another important factor that could raise total fertility rate would be to reduce unemployment among younger generations. Because it is popular among employers in Japan to hire a massive amount of fresh graduates at once, and mid-career recruiting is not functionally and actively conducted by many companies, people who fail to gain a permanent position in the job market at the time of graduation tend to have a hard time finding jobs afterwards, and to be obliged to become contractual or part-time workers whose salaries are normally very low. It is necessary to change this aspect of Japanese employment practice, in order to give the young more opportunity to enter into the job market by facilitating labour market flexibility and further enlarging the market for mid-career workers. Until recently, many companies provided new employees with a job training programme, but they no longer have enough resources to invest in such schemes, and most universities are not yet prepared to offer their students practical and useful vocational training. The public sector urgently needs to provide young job seekers with intensive occupational training, and to put more effort into eliminating mismatch in employment.

Tackling Government Debts

Japan's government debt continues to be a serious economic problem, even though the interest rate of long-term government bonds is still relatively low. It is very likely that more than half of the national budget for the fiscal year of 2012 will be swallowed up by debt. At this moment, there is no feasible solution for reducing such a tremendous level of government debt. The current government is planning to increase consumption tax to 10%; however, this may not be accepted by the majority of people without conducting drastic administrative reforms. The first thing that the government should do is reduce the number of politicians and public servants and their wages. The second is the reorganisation of independent administrative agencies and other governmental institutions. It is necessary to merge, privatise, or dismantle these public agencies in order to reduce government expenditure substantially. If these revolutionary administrative changes are implemented fully, people may understand that the tax increase is needed in order to meet the bill for social welfare, including pensions and health insurance.

Empowering Political Leadership

Rapid prime ministerial turnover is not desirable, especially when a country needs extensive reforms of its institutionalised social, economic, and political systems and practices. At least three or four years are required to complete such changes. Until Junichiro Koizumi became prime minister, most policies were designed by bureaucrats, and politicians did not have much effect on the direction of policies. During the Koizumi era, decision-making responsibility shifted from bureaucrats to politicians, and political parties and politicians began to announce their campaign policies during elections. In the middle of the 1990s, the voting system was switched from a middle-sized constituency system to a small-sized one, so it became easier to change governments. Frequently changing political leaders and governments are necessary consequences of democracy, but there needs to be personal political or institutional leadership in place to administer the direction and implementation of those significant social and economic policies that are closely relevant to the life of Japanese citizens. Going back to bureaucratic-led politics is not ideal. One possible solution is to establish an independent policy think tank on which politicians can rely. Another option is to introduce a sort of presidential system by which a political leader directly elected by citizens can expedite relatively powerful decision-making at a policy level, with a pre-determined fixed term of office.

Concluding Remarks

Japanese economic power has been waning since the economic bubble burst in the early 1990s. For the past 20 years, the Japanese economy has not, nominally, grown at all, while many developing countries now seen to be emerging economies have achieved rapid economic growth. After effects of the burst of the economic bubble, external economic shocks, the end of the population bonus period, mounting government debt, and lack of political leadership are all more or less related to the recent stagnation of Japan's economy. However, Japan has maintained its economic level without experiencing a serious depression and social turmoil, by relying successfully on external demands. In order to maintain the economy at the current level, encourage growth, and make a complete recovery from long-term stagnation, Japan has to tackle several significant policy reforms, without which its economy will no longer be sustainable due to rising government debt and a worsening demographic structure.

In the short term, Japan has no choice but to continue trying to attract external demands. Strategically promoting exports and targeting foreign direct investment are necessary and instant solutions which will help Japan to maintain stability of its economy. In particular, Japan should swiftly facilitate FTA negotiations with large economic partners such as the U.S., the EU, China, and Korea, with which it has not yet concluded an EPA. Japan also needs to enlarge its domestic market in order to establish a robust and sustainable economy. In addition to reconsidering immigration policies, raising total fertility rate is essential for the revitalisation of Japan's domestic demands. Financial and material support, an increase in nursery places and staff, improvement of youth employment, and creating working environments conducive to helping parents pursue both family life and a career are effective policy options. Demying voting is also worth considering in order to make policy stance towards more young-generation friendly at a time when the national budget is severely limited.

Japan will, sooner or later, face a serious credibility problem if it does not take any drastic action to reduce its public debt. If the default risk of government bonds is increased to a certain level, it will quickly devastate the Japanese economy and may lead to serious depression. The current government is planning to raise value added tax from 5% to 10%, but it needs more revolutionary administrative reforms before proposing a tax increase. Strong political leadership is urgently required if these reforms are to be implemented effectively and successfully. The roles of politicians and bureaucrats, and expectations of the people, have been changing dramatically in recent years. It is time to pay serious attention to the political and economic conditions, and for the drastic reorganisation of both political systems and bureaucratic institutions, in order to reflect the current situation. Japan needs more efficient systems through which the voices of the citizens can reach the government directly and the policies people want are carried out relatively completely and smoothly.

Though the Japanese economy has been in a difficult situation in the last 20 years, it is still the third largest by global GDP ranking, it continues to exert great economic power, and its economic influence is unquestionably amongst the most dominant on the global market. However, Japan's current economic position in the global economy may not be sustainable, and its economic power may continue to deteriorate, depending on how the government approaches the aforementioned policy reforms. There is of course another scenario—that Japan decides that it does not need to be economically strong in the world as well as a major player in global politics.

The country can be simply ordinary, small islands in Asia, without actively engaging with the world economic and political order. It is all up to the future policy decisions that the government takes and the citizens choose. Japan does not have much time left to step onto a path of growth, before its economy encounters a harder stumbling block. Drastic policy changes are the only way for Japan's current stagnant economy to improve in the future.

European Lessons for Global Governance

The recent sovereign debt crisis in the eurozone shows both weaknesses and strengths of the European economic governance model. Weaknesses—because crisis management does not allow a move away from an unstable equilibrium position. Strengths—because it shows that the EU model, despite its political complexity, allows domestic and international concerns to be moved from the battlefield to the sphere of deliberative politics in Brussels. What lessons can be drawn from the European experiences to address the global governance issues?

The experience of the economic crisis in the last 3 years has so far shown that, while the push for reforms has been very strong at a national level,¹ or even a regional level such as the EU, progress at the international level has been much less evident—both in addressing challenges and reforming the global governance system. This paper examines the EU agenda in reforming its economic governance as a response to the crisis, in order to test the future directions for global governance reform.²

The recent EU experience in dealing with the crisis shows the crucial link between domestic and international considerations. In particular, rescue packages for sovereign debt countries called for substantial efforts to convince public opinion and reconcile domestic and supranational EU policies. But, at the global level, where global governance and interdependencies are significantly less developed, the institutional power to reconcile domestic and international policies is very weak. For that reason, domestic

¹ “Research on policy reforms suggests that crisis can create significant reform opportunities for domestic policies” as points out *Making Reform Happen. Lessons from OECD countries*, OECD, 2010, p. 31.

² The UK prepares a special report on global governance for the G20 summit meeting in Cannes in November 2011—*Governance for Growth—Building Consensus for the Future*.

considerations—often referred to as “national egoism”—tend to slow or even stop further progress (as on issues such as climate change or trade negotiations in major international forums).

The real danger is that, as the economic crisis enters new stages and globalisation accelerates, the complexities will increase, and the risks of unresolved problems will accumulate over time. Globalisation was compared by M. Belka—former Polish prime minister—to a highway rather than a small country road: *“Driving on the highway is much faster and comfortable, but also higher speed may results in more serious accidents.”* Ultimately, the risks of national view-points gaining greater importance, and of dysfunctional global governance, may jointly lead to disruptions and international conflicts.

In today’s fast changing world, the slow-but-steady progress in addressing global challenges lags behind expectations of the growing complexity. As the economic crisis enters a new stage, the “getting-much-worse-before-gets-any-better” scenario may become a self-fulfilling prophecy. The recent European experiences in dealing with the crisis in the euro area, justify a conviction that only an “unbearable urgency” of “near collapse” that results from “deficiencies in institutional design” may prove to be the catalyst for governance reform.

European Economic Governance

The EU governance model is the most advanced design in the world. It moved many years ago from sovereign government to governance, and now drives toward a hybrid model between governance and European government. Although the EU is so advanced, the crisis has exposed deficiencies in the design of the monetary union. It is now obvious that if the political leaders had known about these deficiencies two decades ago, they would have never launched the single currency.

In the EU we observe the “phenomenon” of multilevel governance,³ in which EU regulations affect the regulations of sovereign states, and EU decisions affect the policy decisions of sovereign states. The EU is therefore

³ I.F. Dekker and R.A. Wessel, “Governance by International Organizations: Rethinking the Source and Normative Force of International Decisions,” in: I. F. Dekker and W. Werner (eds.), *Governance and International Legal Theory*, Martinus Nijhoff Publishers, 2004, pp. 215-236.

a regulatory political system.⁴ Moreover, the crisis exposed the need to strengthen not only the supremacy of the EU regulations over domestic legal order, but also the need to transfer some sovereign executive powers to the EU institutions.

It is yet to be decided which method would be more appropriate in order to achieve greater cohesion and integration—the inter-governmental method or the community method. As the crisis continues, it is becoming more and more evident that the EU should reform its governance system much faster, by relying more on majority voting than on always trying to reach a “sacred consensus” among the Member States. The community method, driven by the Commission for the approval of the Council and the Parliament, may be preferred so as to insure a more flexible and effective solution. More integration and more economic government require a stronger European Commission and a stronger European Parliament.

A strong push for European economic/fiscal governance also comes from the “silent majority” of EU member-countries outside the euro zone. As Jan Vincent-Rostowski, the Polish Minister of Finance, said: *“It is in the self-interest of those innocent bystanders (the non-euro EU members), to encourage the EU member countries to push toward stronger economic governance.”*⁵ Thus, the dialogue about future EU economic governance should be carried out on a more inclusive basis. The non-euro members will be able to enter the euro area when the Stability and Growth Pact is strengthened and the new economic governance rules show sufficient efficiency and resilience. Last but not least, this will happen when countries themselves decide to join the “club of 17 euro members.”

The idea of economic government is a move away from the “EU governance without governments” and towards “governance with economic EU government,” but with clearly defined prerogatives and limitations. In fact, new arrangements such as those proposed in “six-pack” regulations aim to provide both a source of regulations to the Member States and binding decisions vis-à-vis Member States’ executive powers. That is achieved by stronger monitoring, with semi-automatic sanctions to enforce internal fiscal and monetary rigour.

The new economic governance calls for the Stability and Growth Pact to be strengthened. That will be achieved by an increased focus on public debt

⁴ G. Majone, *Regulating Europe*, Routledge, London and New York, 1996, p. 47.

⁵ A. Trotman, “Debt crisis as it happened,” *Telegraph*, 30 August 2011.

and fiscal sustainability, but it will also extend to monitoring macroeconomic imbalances, including competitiveness divergences, and establishing effective surveillance of structural reforms.

The short-term solutions to the euro-crisis should be consistent with the long-term vision of a more integrated Union. There must be a long-lasting solution as well. This should be a permanent fix, not another patch-work. The question remains, how to achieve this?

When considering the sovereign debt problem of Greece, a striking concern was not only how to solve it, but also how to contain two risks: of the crisis spreading to the other countries, and of it occurring again. Containing the crisis is perceived as an exercise in restoring the confidence of the markets.

Limiting the risk of future liabilities, so that the situation will not repeat itself, requires major modifications to EU economic governance. A big challenge, therefore, is to fit the short-term solution within a new, long-term economic governance model. The most cumbersome challenge is to find a way to restore the crisis-hit country's competitiveness, and return to the long-term equilibrium. A monetary union—which removed the external adjustment mechanism that was provided through the exchange rate, and which has encouraged rather excessive borrowing to finance domestic consumption—now needs major modification.

As most of the EU economic rules have been broken before—from the Maastricht criteria to indirect monetisation of sovereign debt—an important question now is how to break this vicious circle of extraordinary interventions, and induce discipline and responsibility, in order to limit future liabilities. That can be achieved with more money and with more proper regulations. More money, sufficient to calm the markets, so that “governments are not pushed around by the markets”—was advocated by Angela Merkel, the German Chancellor; but more discipline, backed by legal arrangements, is also required. The binding arrangements, automatic sanctions, and conditional arrangements should be real instruments with which to tackle the crisis.

It is now acknowledged that the adoption of the euro did not sufficiently stimulate real convergence. On the contrary, it brought easy access to cheap credit, which inflated the price of labour, and of assets such as property and government bonds. A stronger euro, as a result of a more competitive German economy, decreased the competitiveness of today's deficit countries, i.e., those with large structural current-account deficits, such as

Greece, Italy, Portugal and Spain. Furthermore, despite austerity programs that were supposed to improve competitiveness through internal deflation, these countries' ratios of current account deficits to GDP exceed a reasonable threshold of 5%. In particular in Greece it is 10.1%, and in Portugal 9.9%,⁶ thus giving dim prospects that competitiveness will be restored.

The slow pace of internal devaluation, along with the lack of an instrument of external currency devaluation, has led many economists to the conclusion that the only way for Greece to restore its competitiveness is to default on its debt and to leave the eurozone. Nouriel Roubini, called for an exit and external devaluation of the new drachma, that would restore external competitiveness to Greece.⁷ Restoring competitiveness through "drachmatisation," may however add somewhat to an uncontrollable "dramatisation" of an already difficult scenario.

Despite the fact that it is quite difficult to analyse all political and economic implications of "exiting" the euro, an orderly "exit" mechanism should be designed. The assumption of an "irreversible" adoption of the euro poses serious questions about the balance between sovereignty and integrity. According to W. Hague, the British Foreign Minister—"euro is a burning building with no exits."⁸ The lack of "exit rules" from the euro area creates "moral hazard problems" on both sides. The frugal—surplus countries might want to keep the deficit countries in the common currency to benefit from their relative competitiveness, especially for the purposes of intra-euro trade and financial flows. On the other hand, the profligate—deficit countries may attempt to water down the conditionality of the austerity programmes and request more financial assistance. That is exactly the reason why the "exit rules" from the euro area should be established, so an exit from the common currency becomes more controllable.

The right balance between sovereignty and integrity with the economic governance should be complemented with responsibility, rigour and accountability. Most importantly, a clear division of responsibilities among financial institutions, with unambiguous mandates within transitional arrangements, will be able to test the new economic governance of the euro

⁶ „OECD Economic Outlook,” OECD, Paris, November 2011.

⁷ N. Roubini, "Greece Should Default and Abandon the euro," *EconoMonitor*, 22 September 2011.

⁸ J. Blitz, "Hague Says euro 'Burning Building' Claim Correct," *Financial Times*, 28 September 2011.

and the EU institutions. The rules will test the balance between the flexibility and the efficiency of their actions, and the mandate given by the euro member states within their own legal systems, as well as with reference to the Lisbon Treaty ramifications.

Lessons for Global Governance

Global governance, in comparison to the EU, is in its infancy. At this stage, it is barely moving from government to governance, experiencing substantial difficulties both in reconciling national laws with international rules, and in reconciling national policies with international considerations.

Although the demand for international cooperation is increasing, there is growing fatigue both with the inefficiencies of existing international organisations, and with an apparent lack of legitimacy of the new forms of cooperation, such as G20. But the slow progress in reforming global governance may result from a seeming lack of “unbearable urgency” for reform, as in the case of the EU. The recent experience with the EU governance model shows that sovereignty concerns and divergent interest could be overcome, but only if a common vision and commonly agreed goals exist.

That is true also of the G20. As the immediate response to the crises in 2008, the G20 emerged as the prime forum for world economic coordination. When crises erupted, the G20 became a “crisis committee,” as it was elevated from the level of finance ministers to the level of the heads of states. Gradually, the agenda of this informal forum expanded, and now it is turning into the “world’s permanent steering committee.”⁹

The initial success of the G20 had a premium of novelty and prestige, but it was also based on the weaknesses of the global governance architecture, in particular its inefficiencies. Even though its informality proved to be an advantage in the “crisis management” phase, it will gradually become disadvantageous when the G20 moves into the “regular management” phase.

Global governance, unlike in the EU, is drifting towards informality, while within the European framework there is a clear shift to improve governance through more rigid and binding rules. The G20 process allowed the

⁹ P. Subacchi, S. Pickford, *Legitimacy vs Effectiveness for the G20: A Dynamic Approach to Global Economic Governance*, Chatham House, Briefing Paper, October 2011.

international debate to be shifted from the formal format of cooperation to informal “comfort zones,” as Gordon Brown, the former British Prime Minister called the G20 London meeting to emphasise the informal format of meeting between the G7/G8 countries and the new emerging economic powers.

Unlike in the G20 group, the like-mindedness of the EU members allows for bold and straightforward debate about the most controversial issues. This includes debate on the financial rescue packages, on EU imbalances, and on the governance system itself. The EU’s integrative power remains strong. Just the opposite is true in the global context. Debates on macroeconomic coordination issues often lack the necessary power to reconcile.

At the EU level, a set of new “surveillance” and “peer review” instruments are to be applied, in order to increase credibility and accountability, but it is still quite difficult to implement similar methods at the level of the international organisations. The extent to which the IMF can develop sound “surveillance” capabilities to assess spillover effects, and whether the OECD’s “peer reviews” are attractive to the BRIICS,¹⁰ are yet to be tested.

The most important talks in global governance reform should encourage large emerging powers to assume greater responsibility. As U.S. Secretary of State H. R. Clinton said at the last 2011 OECD Ministerial Council Meeting (MCM): “*Shifting powers require shifting responsibilities.*”¹¹ China, the second largest economy, with great potential to manoeuvre in rebalancing the world economy—from stimulating internal demand through increasing social protection to introducing a more flexible exchange rate regime—is not yet ready to assume this growing responsibility. In addition, clichés such as “a common but differentiated” approach, allow many new emerging powers to take less, not more, responsibility in addressing many global challenges.

In the global context, the proliferation of informal formats of cooperation does not help in reforming the legitimate international organisations such as the UN, and the new informal groupings, such as the G20, cannot effectively replace them. So, without legitimacy and proper institutionalisation, it is most unlikely that the G20 will be able to serve as an alternative to the rule-based institutional framework. The idea that the G20 is a world “steering committee” providing only leadership, with the actual work delegated to the international organisations, does not prove any more

¹⁰ The BRIICS—Brazil, Russia, India, Indonesia, China, South Africa.

¹¹ H. Clinton’s speech: “Remarks at the Commemoration of the 50th Anniversary of the OECD,” Paris, MCM, 25 May 2011.

effective. The work still comes back for “action to bind,” to the same inefficient “jungle of international organisations.”

More legitimacy could be achieved by a more transparent and inclusive approach to the G20 non-members which are members of various international organisations. Obviously there is a trade-off between legitimacy and efficiency. A more inclusive, thus more legitimate approach may reduce efficiency. Ultimately there is no substitute for legitimacy, the lack of which may ultimately impede any progress. Finally, the illusion that something substantial has been achieved in these most prominent but informal forums may encourage passivity, or often even stop progress in reforming a legitimate multilateral framework.

As the G20 continues to rely on the work done by international organisations, it is too early to institutionalise it, although a clearer division of responsibilities among major international organisations would be welcomed.

Conclusion

Today’s global governance needs reform, but very little progress is feasible. Emerging economies are not ready to assume more responsibilities, partly because they were not affected much by the crisis. On the other hand, the EU is under great pressure to redesign its economic governance.

As Pascal Lamy, Director-General of the WTO, noted: “*Yet the European construction is one of the most ambitious experiments to date in supranational governance, and the way Europe has coped with the sort of challenges is a useful reminder that defined and organised inter-dependency among nation states is perfectly possible.*”¹²

It is true that the EU model remains a “one of a kind” governance experiment in the world. But, as with any other experiment, despite some spectacular reforms that originated from the crisis, it still needs a lot of testing and further improvements in its governance. As the crisis in the euro zone deepens, it is difficult to imagine that the European experience can further serve as the source of inspiration for global governance reform.

¹² P. Lamy, “Global governance is a challenge for democracy (but an UE opportunity),” Europe’s World, 25 April 20.

Yoshihide Soeya

Shifting the U.S.-China Power Balance and Japan's Response

Introduction

The rise of China encompasses conflicting trends prevalent in the world today, i.e., it represents a source of security instability and an economic opportunity. The role of the United States is also characterised by dualism, i.e., as the single superpower in the world, yet as a superpower in decline, if only in relative terms. The strategic relationship between such prominent powers at this time of critical transformation of the world order is therefore bound to be so complex as to make a quick and easy remedy to any problem impossible to imagine. Under these circumstances, we can only remain alert to both of the evolving trends.

A coping strategy for the rest of us, including Japan, should be to keep the scenario of instability under close scrutiny, while at the same time encouraging the development of a preferable scenario. Herein lies the true meaning of “hedging and engagement,” and it is important to recognise that these two aspects are not mutually exclusive. The other important point to remember is that such a coping strategy cannot be contemplated as a single-country strategy, but should involve cooperation with the United States, on the one hand, and with other like-minded countries in the region, and indeed anywhere in the world, on the other.

Inconsistent Trends Caused by the Rise of China

The rise of China has been phenomenal. Generally, two regional and global trends have resulted from China's ascendancy, or, to be more precise, from the steps launched by a rising China. Firstly, the PRC is seeking an alternative international order in place of the one led and managed primarily

by the United States and other advanced democracies. Secondly, China is attempting to modify some rules and institutional arrangements from within, as a member of the existing international order, which could be called a “liberal international order.”

China’s position indicates that its rise indeed encompasses elements generating both these trends. On the one hand, China’s thinking and activities in the field of traditional security accelerate the first trend as the historically nurtured victim mentality vis-à-vis the West, combined with a strong sense of pride in its unprecedented development, serve to strengthen China’s unique brand of nationalism. Concrete examples include the fact that China accords the highest priority to territorial integrity that embraces also Taiwan and Tibet, as well as claims of sovereignty over the East China Sea and the South China Sea, with these latter claims legitimised by reasoning going back to “ancient times.” Also relevant here is the strong sense of rivalry and competition with the United States which is manifest in Chinese nationalism in general, and in the PLA’s military doctrine and security strategy in particular.

At the same time, however, the spectacular rise of the PRC visible today is indeed a result of China having taken full advantage of the liberal international order led by the United States and other industrialised democracies, particularly since Deng Xiaoping’s open door and reform policies. This implies, at least theoretically, that in order for China to continue rising and tackling associated problems both domestically and internationally, it will have to live within the existing liberal international order, and even craft its grand strategy according to this second scenario.¹

This does not mean, however, that China’s presence at international meetings and debates will be passive. On the contrary, it will fully mobilise its immense pools of intellectual resources and knowledge about international rules and mechanisms, and will challenge the old guard of the liberal international order, seeking to rectify what may look “unfair” in the eyes of China.

In the end, mainstream Chinese diplomatic activities will not divert from the second trend of changing global affairs, and neither are such factors stimulating the first trend as sovereignty and territorial claims or highly geopolitical considerations likely to disappear.

¹ Wang Jisi, “China’s Search for a Grand Strategy,” *Foreign Affairs*, March/April, 2011.

The challenge for the rest of us in East Asia, including Japan, is to work with China effectively in order to encourage it to set its future course in the direction of the second trend, while at the same time guarding against Chinese unilateralism. As stated at the outset, this is a complex task for all East Asian nations, and it cannot be completed fully without consolidating security relations both en bloc, with the United States, and between individual nations.

U.S.-China Relations

As for the United States, it is quite natural for it to take the rise of China as one of the most critical factors affecting the future world order, as well as its own strategy. The fundamental requirement for Washington, and to a large extent for Beijing, is to stabilise cooperative relations, in economic self-interest as well as in the interests of regional stability, while at the same time guarding against the scenario of a geopolitical clash. In essence, this has been the case since the end of the Cold War, and is a trend which has been accelerating ever since, as the balance of power between the United States and China has shifted.

As such, the strategic relationship between the United States and China could be described as two great powers having “different dreams in the same bed.” Both need strategic co-existence in order to further their economic interests and regional stability, but their long-term strategic visions entail elements of collision.

The basic differences will continue to exist in the domain of the long-term military strategies of the Pentagon and PLA, as well as in terms of the so-called universal values, including democracy and human rights. Because of these fundamental differences, traditional security issues will be most difficult between Beijing and Washington, a fundamental contradiction caused by the rise of China at this time of intensifying interdependence and globalisation.

In recent months, China's high-handed approach to the sovereignty issue of the South China Sea and the East China Sea, including the dispute with Japan over the Senkaku islands, has heightened tension in a similar vein. China's claims that its sovereignty over these territories has been obvious since “ancient times,” and its readiness to use military force if necessary, are nothing but manifestations of its desire for a traditional, China-centered

world order, and thus entails elements of paradigm clash, a manifestation of the first trend arising from China's ascendancy.

In fact, some aspects of China's behaviour and thinking imply that PLA may be prepared for the possibility of an eventual strategic clash with the United States. In turn, the U.S. is also aware of such a scenario and is preparing itself for it. A recent case in point is the position expressed by the 2010 Quadrennial Defense Review, in which the Pentagon expressed concern about China's expanding military capabilities, which might deny U.S. forces access to East Asia. Specifically, the QDR states, "anti-access strategies seek to deny outside countries the ability to project power into a region, thereby allowing aggression or other destabilizing actions to be conducted by the anti-access power."²

As stated in the above, however, the U.S.-China relationship in its totality is a typical case of strategic coexistence between great powers that is in essence competitive but will, out of necessity, remain cooperative for the foreseeable future. In a way, precisely because their strategic preferences are firm, long-term, and tend to point in the same directions, both sides are seeking to avoid confrontation and build cooperation.

The first explicit manifestation of such development after the end of the Cold War was the U.S. definition of China as a stakeholder in the contemporary and future international system³. This was a step forward from previous U.S. policy on China which had tended towards a preoccupation with the dichotomy between engagement and containment. Both approaches had one thing in common—both treated China as an outsider of the U.S.-led international system. In contrast, the stakeholder argument assumes that China is already in the system.

China, however, appears to be determined that it does not necessarily have to play the game according to the rules set up by the United States. The U.S. response to this was Fred Bergsten's argument of G-2, recognising both the fundamental differences between the U.S. and China, and the necessity to work with China in tackling the international agenda⁴.

² "Quadrennial Defense Review Report," U.S. Department of Defense, February 2010, p. 31, www.defense.gov.

³ R. Zoellick, "Whither China: From Membership to Responsibility?," Remarks to the National Committee on U.S.-China Relations, 21 September 2005, www.kas.de.

⁴ C. F. Bergsten, "A Partnership of Equals," *Foreign Affairs*, July/August, 2008.

In principle, this approach presupposes China as an insider of the liberal international order led by the United States. There is also evidence that liberal internationalists in China are likely to tread the course toward becoming a responsible member of the international community. After all, as stated above, today's spectacular rise of China is the product of the liberal international order. Furthermore, the PRC will continue to face mounting domestic problems in the years ahead, and the Chinese leadership will not be able to manage them properly without continuing to coexist with this order.

Japan's Coping Strategy

In retrospect, the confusion in the security profile of Japan has long generated discussions about East Asian security. Currently, Japan's profile is much closer to that of a "middle-power," which makes essential the alliance with the United States as the foundation of its security policy. Seeking strategic independence, let alone "re-militarisation," is totally off the radar in Japanese strategic debates and actual policies, and Japan has invested its resources in typical areas of "middle-power" diplomacy, including non-proliferation of WMD and arms control at international institutions, and economic assistance to facilitate regional integration and human security⁵.

As a result, the conventional wisdom—to look at Japan as one of the "great powers" alongside China and the United States—has blinded many observers to a more relevant aspect of the regional role of Japan and by extension of East Asian security. The same confusion persists in relation to Northeast Asian security over the Korean Peninsula. The Korean preoccupation with the geopolitical rivalry between China and Japan over the Peninsula, for instance, is nothing but a myth, even as a future scenario. Here, the traditional Korean view that the Peninsula is encircled by the "four great powers" is a source of disarray, which is the breeding ground of a typical conspiracy theory about Japan's intentions and behaviour.

In brief, Japan alone cannot be a strategic counter-balance to China. For Japan to be a relevant player on the security arena, the cooperation with other states has been and will continue to be vital. In more recent years,

⁵ Y. Soeya, *Nihon-no Midoru Pawa Gaiko [Japan's Middle-Power Diplomacy]*, Chikuma Shobo, Tokyo, p. 200.

there has been growing awareness in Japan that, on top of the alliance with the United States, security cooperation with like-minded nations in East Asia is equally important. Ultimately, Japan's response to the rise of China and changing U.S.-China relations is of crucial importance to the consolidation of the alignment with the U.S. and closer cooperation with countries in the region.⁶

To give a recent example, the Japan-Australia Joint Declaration on Security Cooperation, signed in March 2007, was an embodiment of such a development of Japanese security policy and thinking. The agreed areas of security cooperation in the declaration are relevant primarily for human security, including law enforcement on combating cross-border crime, counter-terrorism, disarmament and non-proliferation, peace operations, humanitarian relief operations, and contingency planning for pandemics.⁷

On the basis of this joint security declaration, both states signed the Japan-Australia Acquisition and Cross-servicing Agreement (ACSA)⁸ on 15 May 2010, enabling the military forces of two countries to cooperate through the reciprocal provision of supplies and services. This was indeed a historic achievement in the post-war history of Japanese security policy, setting the legal framework for the Japanese SDF to cooperate with a foreign country other than the United States for the first time.

The swift and massive rescue operations carried out not only by the U.S. military but also the Australian military in the aftermath of the East Japan earthquake and tsunami, on 11 March 2011, were a sharp reminder that non-traditional security cooperation of this scale and nature is of critical importance.

The Korean rescue mission was also swift (indeed, it was the first to operate on the Japanese soil) and very much appreciated by the Japanese people. There is no reason to believe that an agreement similar to the

⁶ This is also the central argument of the report of the Council on Security and Defense Capabilities in the New Era set up by the former Prime Minister Yukio Hatoyama in the Prime Minister's Office: "Japan's Visions for Future Security and Defense Capabilities in the New Era: Toward a Peace-Creating Nation," August 2011, www.kantei.go.jp.

⁷ "Japan-Australia Joint Declaration on Security Cooperation," 13 March 2007, www.mofa.go.jp.

⁸ "Agreement between the Government of Japan and the Government of Australia concerning reciprocal provision of supplies and services between the Self-Defense Forces of Japan and the Australian Defence Force," 19 May 2010, www.mofa.go.jp.

Japan-Australia security concord cannot be reached between Tokyo and Seoul, where Japanese and Korean military forces would work hand in hand for humanitarian purposes in Asia and the world.

Needless to say, in the yet to be cultivated domain of Japan-South Korea security cooperation, the prevailing climate of antagonism rooted in the history of Japanese colonisation of Korea is the number one hurdle. Quite paradoxically, however, a deep and real obstacle lies in Japan's difficulty in establishing significant military cooperation with a country other than the United States, due to its constitutional, legal, political, and social constraints. Japan's security cooperation with South Korea in the event of a Korean military contingency, for instance, is difficult to foresee in view of those limitations, which still dictate Japanese security policy.

In Conclusion: A New Trend in DPJ Diplomacy

In late August 2009, a historic transformation took place in Japanese domestic politics. The Democratic Party of Japan (DPJ) won a landslide victory in the lower house election conducted on August 30. It was the first time in the history of the Liberal Democratic Party (LDP), established in 1955, that the party slipped from its position as the majority party in the National Diet.

The impact of this historic change in domestic politics on Japanese diplomacy in general, and on Japan's security policy toward China in particular, is still uncertain. The future is precarious, largely because the DPJ is still inexperienced as a ruling party, and, more importantly, because the leadership of the DPJ has been adventurous enough to embark upon a set of ambitious policies to change the post-war "ancien régime" that was so tenacious under perpetual LDP rule. For the time being, it appears that confusion remains in Japanese domestic politics.

Amid the recent disarray in domestic politics, amateurism of a kind has prevailed in the foreign policy-making process of the DPJ administration. Compounded by the DPJ's mistrust in bureaucracy, an important source of the continuity of policy, this has contributed to the tendency to express "assertiveness for the sake of assertiveness" among some key DPJ leaders. This gives many observers of Japanese foreign policy the impression that DPJ diplomacy is in fact "conservative."

One should realise, however, that there are two kinds of conservative assertiveness expressed in Japanese debate and politics, and those do not

play a crucial role as factors affecting the substance of Japan's diplomacy. For one thing, the harsh clash between the right-leaning conservatism and the left-leaning liberalism is not new in post-war Japanese society and politics. During much of the post-war period, it essentially remained a domestic contest.

Secondly, as stated, a rather naïve assertiveness for its own sake has been on the rise in the DPJ administration. Here, the assumption is that Japanese diplomacy so far has been too soft in enforcing whatever needed to be highlighted including the territorial disputes. A typical example of this assertiveness confusing and complicating actual diplomacy was the clash over the Senkaku issue in September 2010, when the Kan administration took strong action to arrest the captain of a Chinese fishing boat which had strayed into disputed waters and attempted to put him on trial according to Japanese domestic laws. There was no diplomatic consideration whatsoever of the aftermath, and so when China took harsher counter-measures there was no other option on the part of Tokyo but to give in.

The somewhat anachronistic emphasis on traditional security issues, most notably territorial disputes, by policy-makers of the countries concerned, are fed by such situations. In this vicious cycle, China's preoccupation with traditional values stands out, and the national leaders and the majority of the population appear unanimous in the belief that territorial issues should constitute "core" national interests. In the Japanese debate as well, equally anachronistic arguments on national defence and territorial disputes are on the rise.

One of the most difficult aspects of a transforming regional order in East Asia, therefore, is this mix of lingering traditional security issues and the long-term evolution of a liberal international order premised on post-modern, liberal and internationalist values. Despite some signs of confusion, as stated above, Japan will in the coming decades remain essentially liberal-internationalist. The nature of such diplomacy could best be described as middle-power diplomacy, rather than that of a great power. As such, in tackling difficult issues at this time of complex transition, South Korea and Japan are natural partners as allies of the United States, and as the harbingers of post-modern liberal-internationalism that is deeply-rooted in their respective civil societies.

Axel Berkofsky

Japan's New “National Defense Program Guidelines” —What's New, What's Old, What's at Stake?

Introduction

In December 2010, Japan adopted the National Defense Program Guidelines (NDPG). The guidelines outline the country's 10-year defence strategy (previous such documents were issued in 1976, 1995 and 2004). The program is aimed at equipping Japan's Self-Defense Forces—SDF (“*jietai*” in Japanese) with the capabilities and tools to react to crisis scenarios that go beyond the defence of Japanese territory on the Japanese mainland. This means they are, for example, aimed at upgrading the armed forces and the country's coast guard to be able to better protect and defend Japanese-controlled and disputed territory in the East China Sea (the Senkaku Islands, subject of a territorial dispute with China). The 2010 NDPG stipulate the re-location of military equipment and troops from the northern part of the country towards the south, including the southern island chains in the vicinity of mainland China and Taiwan.¹ This partial re-location of Japan's armed forces is above all motivated by China's rapidly advancing military modernisation, its increasingly regular intrusion into Japanese-controlled territories in the East China Sea, and Beijing's overall assertive and indeed aggressive policies related to territorial claims in the East China and South China Seas.

¹ See also D. Fouse, *Japan's National Defense Program Guidelines: Coping with the 'Gray Zones'*, Asia-Pacific Papers, Asia-Pacific Center for Security Studies, Honolulu, Hawaii, April 2011, www.apcss.org.

However, Japan's security and defence policies will, after the adoption of the NDPG, continue to remain strictly defensive in nature, i.e., the guidelines do not foresee the acquisition of offensive military equipment. "Japan will continue to uphold the fundamental principles of defence policy including the exclusively defensive defence policy and the three non-nuclear principles," the guidelines read. Tokyo's "defense-oriented defence policies" declare that the country's armed forces capabilities and equipment are strictly limited to the minimum necessary for self-defence and the defence of Japanese territory.² In 1967, Tokyo adopted policy guidelines, which state that the country would not to spend more than 1% of its GDP on defence.³ Policy makers argued, and continue to do so, that spending 1% of GDP is acceptable for an officially pacifist country.

With the adoption of 2010 NDPG, Japan's decade-old self-imposed rule not to spend more than 1% of its GDP on defence⁴ could in the case of a military crisis be eased to enable the government to respond to what the Ministry of Defense refers to as "unforeseen future difficulties that are recognized as regional or global security issues that require response."⁵ What's more, given that Japan's GDP is the world's third largest, 1% of Japan's GDP translates into a defence budget of an impressive \$47 billion annually, and only three countries spend more on defence than 'pacifist' Japan: the U.S., China and Russia.

"Dynamic" Armed Forces

Japan's new defence guidelines replace the country's decade-old Basic Defense Forces concept – BDF (*kibanteki boeiryoku koso*), first published in Japan's 1976 National Defense Policy Outline (NDPO), with what is now called the Dynamic Defense Force concept (*doeki boei ryoko*). The BDF

² See "Basis of Defense Policy," Ministry of Defense, www.mod.go.jp.

³ Since 1967 (with the exception of 1995–1997), Tokyo has stuck to the policy of not spending more than 1% of its GDP on its armed forces.

⁴ Since 1967, Tokyo has (with the exception of 1995–1997) consistently spent less than 1% of its GDP on its armed forces.

⁵ See "Mid-Term Defense Program (FY2011–FY2015)": "In the event of unforeseen future difficulties that are recognized as regional or global security issues that require response, then with the approval of the Security Council, approximately 100 billion yen in addition to the amount described in 2. above, can be used for such contingencies," Ministry of Defense, www.mod.go.jp.

required Japan's defence capabilities must, in terms of quality and quantity, be designed to enable the country's armed forces to deter and counter a small-scale invasion of Japanese territory. Under the static BDF, weaponry and infantry were stationed across the country's main islands, but Tokyo's new "dynamic" defence policy doctrine is aimed at allowing the armed forces to use its capabilities according to actual security needs, to deter and counter an attack on Japanese territory.

Restructuring of the armed forces notwithstanding, the 2010 NDPG do not alter the fundamentals of Japan's defence and security policies: Tokyo's defence policies will remain exclusively defence-oriented, i.e., they will remain what Tokyo and official documents refer to as "defensive defense policies" (*senshu boei*). Japan's "defensive defense policies" will continue to exclude the acquisition and deployment of power projection capabilities, such as offensive ballistic missiles able to reach and hit, for example, North Korean missile and nuclear sites (as parts of Japan's defence establishment requested several times over the past years). In short, Japan's armed forces will not be equipped with offensive military equipment enabling the country to attack another country, arguably something that "normal countries" reserve as a right for themselves. By continuing to exclude the acquisition and deployment of offensive military capabilities (such as short-range missiles able to hit and destroy North Korean missile and nuclear sites) it could indeed be interpreted that Japan is being only "somewhat" or "to a certain extent" normal as regards the country's security and defence policies, which excludes the instrument and strategy of defending national territory with a pre-emptive attack on a potential attacker's national territory.

The guidelines confirming Japanese policy makers' determination to resist pressure from parts of Japan's defence establishment to acquire offensive military equipment arguably renders baseless those concerns and fears (typically and above all of the Chinese) that the document lays the basis for Japan becoming a potential military threat to others in the region. Nonetheless, from a Chinese perspective—and arguably from a Chinese perspective only—Japan's new NDPG increase the perceived East Asian "security dilemma" and provide Beijing with yet another justification to modernise its armed forces, in view of the perceived threat posed by re-structuring and material upgrade of Tokyo's military and coast guard (described below). To be sure, given China's rapidly advancing military modernisation, accompanied by its double-digit defence budget growth over the last two decades, Beijing—to put it bluntly—probably did not need another justification to continue upgrading and modernising its armed forces.

As regards the contents and trends of Tokyo's defence guidelines, Beijing is probably, and above all, alarmed that the document does not limit themselves to equipping Japan's armed forces with the capabilities and equipment to defend Japanese territory on the country's four main islands, but will also better equip Japan's military and the country's coast guard to defend Japanese-claimed (and disputed) territories in the East China Sea.

Defending the South

Predictably, two countries are of most concern to Japan's defence planners: North Korea and China. While North Korea has for years been exploited by Japan's establishment, as what the literature refers to as a "catch-all threat"⁶ and a "proxy threat" to justify changes in Japan's security and defence policy agenda,⁷ the 2010 NDPG confirm that China's rapid military modernisation, together with its increasingly assertive regional policies related to territorial claims in the East and South China Seas, have shaped the changes to Japan's security and defence policies formulated in the December 2010 defence guidelines.

In this context, the defence guidelines refer to the country's south-western parts, and to islands in the relative vicinity of mainland China, Taiwan and the Taiwan Straits as a "strategic vacuum" to be addressed (or indeed "filled") by the foreseen re-structuring of the country's armed forces in the years ahead. In the same context, the NDPG refer to so-called "gray-zone disputes" in Japan's south-western parts and islands. "There are a growing number of so-called 'gray-zone' disputes—confrontations over territory, sovereignty and economic interests that are not to escalate into wars."⁸ There is no doubt that, in this context, the guidelines refer to unresolved territorial disputes with China in the East China Sea.

⁶ See: C.W.Hughes, "Super-Sizing the DPRK Threat: Japan's Evolving Military Posture and North Korea," *Asian Survey*, Vol. 49, No. 2, March/April 2009, pp. 291–311.

⁷ North Korea's advancing missile and later nuclear programmes were the reasons why Japan officially committed to jointly develop a missile defence system with the U.S. in 2005. North Korean intrusions into Japanese territorial waters prompted Tokyo to upgrade Japan's coast guard capabilities over recent years. For details see e.g. L. Hagström, "Normalizing Japan: Supporter, Nuisance or Wielder of Power on the North Korean Nuclear Talks?," *Asian Survey*, Vol. 49, No. 5, 2009, pp. 831–851.

⁸ See: "National Defense Program Guidelines for FY 2011 and Beyond," Japanese Ministry of Defense, p. 3, www.mod.go.jp.

Indeed, Chinese naval activity in or close to Japanese-controlled territories in the East China Sea (the Senkaku Islands) have confirmed to Tokyo's defence planners that Japan's defence capabilities and equipment must be concentrated in the southern part of the country. Since the mid-late 2000s, the Chinese navy's intrusions into Japanese-controlled territories in the East China Sea have become increasingly frequent. From 2008-2010, Tokyo detected Chinese activity around the disputed territories in the East China Sea, as flotillas of Chinese naval warships passed through the Tsugaru and Miyako channels towards the Pacific Ocean on a fairly regular basis. In April 2010, a Chinese flotilla of ten vessels, including Kilo-class submarines and Sovremenny-class destroyers, passed through the Miyako channel between Okinawa and Miyako Island and on towards waters west of Okinotorishima Island, to conduct military exercises. In September 2010, Japanese-Sino relations were strained for weeks when Tokyo detained a Chinese skipper who had intentionally rammed a Japanese coast guard patrol vessel with his trawler, near the disputed Senkaku/Diaoyu Islands.

Of particular concern to Japan are Beijing's plans to build and deploy an aircraft carrier battle-group, as what is feared could be part of Beijing's so-called "anti-access strategy," i.e., the strategy of blocking East Asian sea lanes aimed at reducing Washington's ability to deploy naval power in the region in the case of a military contingency. As part of the U.S.-Japanese counter strategy, Tokyo plans to deploy five additional submarines in its coastal waters while at the same time increasing its overall number of submarines from 16 to 22.⁹ The new submarines will be deployed to strengthen the defence of Japan's sea-lanes, its 29,800 km coastline, and the country's enormous maritime Exclusive Economic Zone (EEZ) of roughly 4.5 million square kilometers.

In an attempt to re-assure Beijing that Japan's defence guidelines are not to be understood as part of or confirmation of a military containment strategy towards China, they state that Japan will seek to establish a "mutually beneficial relationship based on common strategic interests" with China. In order to seek such ties with Beijing, Japan mentions the expansion of bilateral security dialogues and exchanges, confidence-building measures, and cooperation in the field of non-traditional security.

However, in view of Japanese-Chinese regional geo-strategic rivalry in general, and of the bilateral territorial disputes in particular, it remains to be seen whether, when, and how such increased Japanese-Sino cooperation will take place.

⁹ See: also S. A. Smith, "Japan's Dynamic Defense Policy and China," Council on Foreign Relations, 17 December 2010, www.cfr.org.

Box 1

Japanese-Chinese Territorial Disputes in the East China Sea

Both Japan and China claim sovereignty over the same island chain—the Senkaku (in Japanese)/Diaoyu (in Chinese) Islands, located in the East China Sea. The Senkaku/Diaoyu Islands comprise five uninhabited islands and three rocks, aggregating roughly seven square kilometres. The islands are situated approximately half way (roughly 400km) between the Chinese mainland and Okinawa, and about 170km northeast of Taiwan. The islands are controlled by Japan but are claimed by China (as well as by Taiwan), which on the official record refers to Chinese sovereignty over the island chain as “indisputable.” Tokyo will never renounce the Senkaku Islands as an integral part of Japanese territory, and Beijing, for its part, will not give up its territorial claims either. The PRC bases its territorial claims on Chinese historical records dating back to the Ming dynasty (1368–1644). China, however, only began making official statements of its territorial claim over the islands in the late 1960s, when it emerged that the waters around the islands could be rich in petroleum and gas.

Japanese-Sino territorial disputes in the East China Sea are not, however, limited to the Senkaku/Diaoyu Islands, but involve waters totalling roughly 210,000 square kilometres. What's more, Tokyo and Beijing also disagree on the borders of their respective EEZ. While Japan claims a division on the median line between the two countries' coastlines as the border of its zone, China claims that its section extends to the eastern end of China's continental shelf, which goes deeply into the EEZ claimed by Tokyo. The disputed waters are believed to hold significant gas and oil reserves, and as the waters are mostly shallow, resource exploitation is relatively easy. This led China to start test drilling for oil and gas in those areas, including in areas beyond the median line claimed by Tokyo, in the mid 1990s. In 2004, Beijing announced the establishment of a special naval fleet to be deployed to the East China Sea to protect its drilling ships. Tokyo responded in April 2005 by allocating rights for gas exploration to Japanese companies in Chinese-claimed waters in the East China Sea.

In June 2008, Tokyo and Beijing adopted the so-called Principle Consensus on the East China Sea Issue, which foresees the joint Japanese-Chinese exploration of natural resources in the East China Sea. However, given that the agreement deals exclusively with the possible joint exploration of natural resources, progress towards the resolution of maritime border issues in the East China Sea cannot be expected any time soon (or indeed ever). Through what is referred to as “functional cooperation,” i.e., envisioned joint exploration of natural resources, Tokyo and Beijing (at least occasionally) demonstrate a joint interest to sideline controversies and disagreements over sovereignty and reduce them to a level that makes military confrontation over the disputed territories unlikely. However, Beijing has repeatedly stressed that joint exploration of resources around the disputed islands will only take place on the condition that Tokyo recognises Beijing's complete sovereignty over them—and this will most probably continue to mean that joint exploration of gas and oil in the East China Sea is very likely to take place on paper, and on paper only, in the years ahead.

Re-Structuring the Military

The defence guidelines will be accompanied by a comprehensive restructuring of Japan's armed forces, formulated in the Mid-Term Defense Program (MTDP) for FY2011-FY2015, issued together with the NDPG on December 17, 2010.¹⁰ Restructuring affects all three branches of Japan's armed forces: the Ground Self-Defense Forces (GSDF), Air Self-Defense Forces (ASDF) and Maritime Self-Defense Forces (MSDF):

- Ground forces troops, units and equipment will be re-located from northern Japan (Russia crisis scenario) to the south and south-western parts of Japan (China crisis scenario), including to the East China Sea.
- 1,000 ground troops will be deployed to the western island of Yonaguni, Japan's most westerly island, in the vicinity of Taiwan.
- Ground troops will be stationed on Miyakojima, an island in the southern part of Okinawa prefecture.
- The GSDF will receive additional CH-47 JA transport helicopters in order to boost response capabilities for rapid deployment in the case of a regional military contingency.
- A GSDF coastal monitoring force will be deployed on Japan's south-western islands.
- The number of Japan's ground troops will be reduced from 155,000 to 154,000.
- The number of Japanese tanks will be reduced from 600 to 400. Most Japanese tanks stationed in Hokkaido and will be re-located to the southern parts of the country.
- The MTPD continues to commit Japan to the joint development of a second-generation missile defence interceptor (the S-3AII system).¹¹

¹⁰ Document is available at www.mod.go.jp.

¹¹ The U.S. needs Tokyo to develop the missile system's nose cone, the second and third stage rocket boosters, and the upper and lower separating segments of the second-stage rocket engine. Washington and Tokyo are currently developing the kinetic warheads and infra-red seekers, while U.S. defence contractors are developing the missile guidance, boosters, and the systems integration without Japanese assistance. For further details also see C. W. Hughes, R. K. Beardsley, *Japan's Security Policy and Ballistic Missile Defense*, Routledge/Curzon, London and New York, 2008.

- Two additional state-of-the-art AEGIS-class destroyers equipped with state-of-the-art SM-3 missile interceptor systems will be deployed.¹²
- The ASDF’s air defence capabilities will be upgraded through the stationing of an additional fighter squadron at Naha Air Base in Okinawa.
- The ASDF’s F-4 fighter aircraft will be replaced with a fifth generation fighter. The number of Japanese F-15 fighter jets deployed on Okinawa will be increased from 24 to 36.
- The overall budget of Japan’s Coast Guard (JCG) will be increased (again¹³) to buy additional ships and jets, while the navy will receive additional state-of-the-art Aegis destroyers.
- Seven new reconnaissance jets and 21 new patrol ships will be added to the coast guard fleet. Some of these ships will be deployed to the East China Sea.
- Japan’s navy will increase the number of its Aegis destroyers from four to six¹⁴.

Japan’s defence decision-makers have for years requested the improvement of the armed forces’ information and policy coordination mechanisms. The December 2010 defence guidelines respond to that request through the establishment of a Japanese version of the U.S. National Security Council. Japan’s National Security Council reports directly to the prime minister.

Not Lifting the Weapons Export Ban

In 1967, the Japanese government issued the so-called “Three Principles” on arms exports, which banned weapons sales to communist countries, countries involved in international conflicts, and subject to United Nations sanctions. In 1976, the weapons export ban was expanded when Tokyo decided to ban the export of Japanese weapons and weapons technology to all states, not only to those affected by one or more of Tokyo’s “Three Principles.”

¹² See e.g. A.P. Liff, *Japan’s 2010 National Defense Program Guidelines-Reading the Tea Leafs*, Asia-Pacific Bulletin, No. 89, 22 December 2010, East West Center, Honolulu, Hawaii.

¹³ While Japan’s overall defence budget has been decreased over the past 5–10 years, the JCG’s budget has steadily increased.

¹⁴ AEGIS destroyers are equipped with anti-missile systems able—at least in theory—to intercept and destroy North Korean Nodong short-range missiles.

Until mid-December 2010, it was widely considered to be a matter of course amongst Japanese pro-defence policy makers and scholars, that the government would lift the export ban to allow Japanese defence contractors to export weapons used in either UN peacekeeping and peace-enforcement missions, or missions combating international terrorism.¹⁵ In the framework of such missions, Japanese contractors envisioned joint projects with companies in South Korea, the U.S. and also Europe. In November 2010, the government published a set of three rules which in the case of the lifting of the embargo in December 2010 would have: 1. Limited export of weapons to peace-building and humanitarian missions, 2. Limited joint development projects to partners in the U.S. and NATO member states and 3. Established standards to prevent the transfer of defence technologies to countries other than the U.S. and NATO member states. Shortly before the adoption of the guidelines, however, the government felt obliged to give up (or postpone, by one year as it turned out) its plan to lift the weapons export ban. The ruling Democratic Party's of Japan (DPJ) coalition partners—the People's New Party (PNP) and the Social Democratic Party (SDP)—were categorically opposed to lifting of the ban and threatened to leave the coalition if then prime minister Naoto Kan decided to lift it. Lifting the ban, both parties feared, would alter and indeed abolish the fundamentals of Japan's "defense-oriented" defence policies. Whereas the DPJ is equipped with a nearly two-thirds majority in parliament's lower house (the first chamber), without support of coalition partners it did not command the necessary majority in the upper house it needed in order to adopt laws related to fiscal year 2011 (the laws had be enacted by March 2011). Both the PNP and SDP refused to provide the DPJ with the necessary support and votes in the upper house if the government decided to lift Japan's weapons export ban.

However, while the weapons export ban was not lifted in December 2010, the defence guidelines did not exclude the possibility of revisiting the issue in the future: "Measures to follow the international trends of defense equipment will be studied," the NDPG read. In December 2010, Tokyo continued to reserve the right to revisit its decision not to abolish the self-imposed ban on the export of weapons and weapons technology. As will

¹⁵ Then Japanese Defence Minister Kitazawa told then U.S. Secretary of Defence Robert Gates that it is likely that Tokyo will lift the ban in December; see "Kitazawa: Review of Arms Ban May be in the Cards," *The Asahi Shimbun*, 13 October 2010, www.asahi.com.

be explained below, the Japanese government, led by Prime Minister Yoshihiko Noda, did exactly that in December 2011.

...And Exporting Already

In December 2004, under pressure from the country's defence industry, the Japanese government partially eased the country's weapons export ban, officially allowing Mitsubishi Heavy Industries and Kawasaki Heavy Industries to cooperate with U.S. counterparts on the development of the U.S.-Japan missile defence system. Even before 2004, Mitsubishi already cooperated on joint military projects with U.S. defence contractors such as Raytheon, the world's largest missile maker, and Lockheed Martin, the biggest U.S. defence contractor. The partial easing of the weapons export ban allowed Mitsubishi to supply U.S. contractors with nose cones, motors and other components for sea-based anti-missile systems.

Japan's biggest business association, Nippon Keidanren, published a report on Japanese defence and security policies in July 2010, in which it complained that Japanese defence contractors were unable to develop long-term business strategies in view of reductions in Japanese defence spending.¹⁶ More importantly (at least from Keidanren's perspective), the report urged the government to allow the country's defence industry to participate in international research and development projects and consortia, in order to secure the industry's international competitiveness and increase Japan's share of the country's overall production.

...And Then Lifting It

Predictably, the government's decision not to lift the arms export ban in December 2010 did not terminate the debate on the possibility of the ban being lifted. Most probably under pressure from the country's defence industry, then-Japanese Defense Minister Yasuo Ichikawa told Reuters news agency in October 2011 that he expected a government decision on a possible easing of the weapons export ban "before long."¹⁷ In mid-October 2011 Reuters reported that Japan—by then governed by new Prime

¹⁶ See: "Proposal for the New National Defense Program Guidelines," Nippon Keidanren, 20 July 2010, www.keidanren.or.jp.

¹⁷ "Japan eyes easing of joint arms development," *Reuters*, 5 October 2011, www.uk.reuters.com.

Minister Yoshihiko Noda—was considering easing the country's weapons export ban further, allowing the defence industry to contribute to multi-national weapons development consortia.¹⁸ Reuters referred in its report to the *Yomiuri Shimbun*, which on October 14 reported that Noda would tell U.S. President Obama at the Asia-Pacific Economic Cooperation (APEC) summit in Honolulu in mid-November 2011 that Japan would lift its ban on exporting weapons.¹⁹ At the time, Tokyo did not confirm the newspaper report, and instead insisted that the government had no immediate plans to ease the ban any further and thereby to allow Japanese defence contractors to cooperate with non-U.S. defence companies.

On December 27, 2011 the Japanese government officially announced an easing of the ban, allowing Japanese defence contractors to take part in the joint development and production of weapons with other countries such as Australia, European countries and South Korea (as opposed to only the U.S.), and to supply military equipment for humanitarian missions.²⁰ On the same day, the Japanese government announced the establishment of new guidelines on the relaxation of Japan's weapons export ban. The new guidelines are called "criteria regarding overseas transfers of defense equipment" and stipulate that Japanese defence contractors are allowed to participate in joint projects to develop and produce military equipment and technology with the U.S. and European countries, and Japanese defence contractors are allowed to export defence-related equipment in support of peace-building or humanitarian missions.²¹ While the easing of the weapons export ban does not necessarily mean that Tokyo will immediately sell weapons and technology to other countries than the U.S., it is very likely that, from now on, Mitsubishi will contribute to the development of Lockheed Martin's F-35 fighter, which the Japanese government earlier in December chose as the country's future frontline fighter. In the years ahead, Japan's Ministry of Defense plans to acquire 42 F-35 fighters at an estimated cost of more than \$7 billion. Under pressure from Japan's defence contractors, lifting the weapons export ban was arguably driven above all by

¹⁸ See: "Japan PM to ease weapons export ban –Yomiuri," *Reuters*, 14 October 2011.

¹⁹ "Noda to brief Obama on arms exports/Relaxing ban to enable joint development," *Yomiuri Shimbun*, 15 October 2011, www.yomiuri.co.jp.

²⁰ See: "Debt-riddled Japan relaxes decades-old arms exports ban," *Reuters*, 27 December 2011

²¹ See: "Govt decides to ease arms export ban / Way clear for joint intl arms development," *Yomiuri Shimbun*, 28 December 2011.

economic motivations and considerations. The above-mentioned Nippon Keidanren has for years urged Japanese governments to lift the ban, to enable the country's defence industry to compete globally as opposed to only domestically.

Not Going Nuclear

Japan's new defence guidelines do not revise any of Japan's "Non-Nuclear Principles." These rules are from a parliamentary resolution that has served as the basis for Japan's nuclear policies since their inception in late 1967. The principles state that "Japan shall neither possess, nor manufacture nuclear weapons, nor shall it permit their introduction into Japanese territory."

The Japanese parliament formally adopted them in 1971, and they have remained to the present day merely "principles" as opposed to laws. Recommendations and requests from parts of Japan's defence establishment to review or indeed abolish of the three "Non-Nuclear Principles" received some (albeit temporary) support from the Japanese public after North Korea's nuclear tests in 2006 and 2009. In March 2010, then Japanese Foreign Minister Okada suggested during a parliamentary committee that Japan should have the right to let U.S. warships introduce nuclear weapons into Japan during what Okada referred to as a "defense emergency." "If Japan's security cannot be protected without temporary... calls by U.S. vessels carrying nuclear weapons, the government would have to make a decision, even if it has political consequences," Okada said during the committee meeting.²²

In August 2010, then Japanese Prime Minister Kan excluded the revision of any of the three "Non-Nuclear Principles" and instead announced that they would be embedded into a legal framework, thereby forbidding Japan, by law, from introducing, stockpiling or manufacturing nuclear weapons. However, this has been announced and indeed promised by Japanese governments several times over the past decades, and these announcements have never been followed up.²³

²² Okada, however, retracted what he said only a few days later, saying that Japan would not allow the introduction of nuclear weapons into Japan, including port calls by nuclear-armed vessels.

²³ See also M. Toki, "Japan's Defense Guidelines: New Conventional Strategy, Same Old Nuclear Dilemma," *Issue Brief National Threat Initiative* (NTI), 1 March 2011.

Instead, it is possible that discussions on Japan's "nuclear option" or on revising one or more of the country's "Non-Nuclear Principles" could be resumed if North Korea continues to break its 2007 commitment (stipulated in the so-called "Nuclear Agreement," adopted in the framework of the Six-Party Talks, the multi-lateral forum aimed at achieving Pyongyang's sustainable and verifiable denuclearisation²⁴) to dismantle its nuclear programme, or worse still should it continue to weaponise plutonium, turning it into weapons-grade plutonium needed for nuclear bombs.

US-Japan "Secret Agreements"

The debate on the possible revision of one of Japan's "Non-Nuclear Principles" in 2010 did not come without prior warning. The debate on the principles' revision made it onto the government's agenda in December 2009 when it was leaked to the Japanese media that there existed U.S.-Japan "Secret Agreements" through which Japan allowed the U.S. military to introduce nuclear weapons into the country throughout the Cold War. The agreements were declassified in 1999, and a researcher from a think tank in Washington even made a copy of them, before they were again reclassified in view of their politically sensitive nature. The documents proved unambiguously that Japan's policymakers have over decades known about but denied the existence of the bilateral agreements that clearly showed that the victim of two nuclear bombs dropped on its territory was far less committed to a nuclear-free world than its policymakers had for decades being trying to make the public believe. The possible entry of U.S. nuclear warships and submarines to Japanese ports without prior consultation was agreed in the early 1960s, and again confirmed in a Japanese Foreign Ministry briefing document of January 1968. The document stated that "there is no option but to continue in our present position of allowing nuclear-armed U.S. warships to enter Japan."

After the re-emergence of the bilateral secret agreements, the Japanese government, then led by Prime Minister Yukio Hatoyama, nominated a Foreign Ministry panel to investigate whether Japanese governments had since the late 1960s indeed violated one of Japan's "Non-Nuclear Principles," i.e., whether the political leaders at the time had allowed the

²⁴ The Six-Party Talks were established in 2003 and are hosted by Beijing.

introduction of nuclear weapons into Japan. The Foreign Ministry's panel published its findings in March 2010 and concluded that the government at the time had indeed adopted four secret agreements with the United States in the late 1960s:

1. An agreement to allow U.S. warships to introduce nuclear weapons into Japanese ports.

2. An agreement to permit the U.S. military to use bases in Japan without prior consultation in the event of a military crisis on the Korean Peninsula.

3. An agreement between then Japanese Prime Minister Eisaku Sato and U.S. President Richard Nixon to allow nuclear weapons into Okinawa Prefecture in the case of a regional military crisis.

4. An agreement by which Japan agreed to bear the costs of the return of Okinawa to Japan in 1972.

The ministry panel also concluded that the minutes of a meeting between Japanese Prime Minister Sato and U.S. President Nixon on the return of Okinawa to Japan in 1969 revealed a U.S.–Japan agreement to allow the introduction of nuclear weapons into Okinawa in the case of a military crisis in the region²⁵. Until Okinawa's return to Japan in 1972, the U.S. had stationed both tactical and strategic nuclear weapons on the island. During the U.S.-Japanese negotiations over the return of Okinawa to Japan, the minutes of a meeting in October 1969 reveal that Washington opposed Tokyo's position of making Okinawa nuclear-free. The then Prime Minister Eisaku Sato, however, said at the time that Japan had essentially no choice but to give in to U.S. pressure: "If they inform us, it's necessary to reintroduce nuclear weapons because of an emergency, then we will have to say yes." After the demise of the Soviet Union in 1991, the U.S. stopped loading tactical nuclear weapons onto its warships and submarines, which led then Foreign Minister Okada to claim in March 2010 that this meant that nuclear weapons had not been brought into Japan for the past two decades. However, this might not necessarily be true, as the U.S. military continues to deploy strategic nuclear weapons, such as cruise missiles and long-range ballistic missiles, on its warships and submarines, and possibly including to ports in Japan. The re-emergence of the "secret agreements" confirmed that Japanese LDP-governments were never—to put it bluntly—

²⁵ See also E. Johnston, "Slowly Secret US Nuke Deals Come to Light," *The Japan Times*, 20 November 2009; "Japan Confirms Secret Pact on US Nuclear Transit," *BBC News*, 9 March 2010.

as pacifist as the constitution and the country's "Non-Nuclear Principles" should have obliged them to be.

Not Revising Article 9 and Not Defending Collectively

The defence guidelines do not make any recommendations as regards the re-interpretation of the Japanese constitution's war-renouncing Article 9²⁶ and do not propose allowing Japan to execute the right to collective self-defence, arguably the basis for effective and "real world" military co-operation, either multi-laterally, or bilaterally between the U.S. and Japan in the context of their bilateral security alliance.

To be sure, Japan's defence establishment had hoped that the NDPG would revive the currently de facto dormant inner-Japanese debate on the revision of war-renouncing Article 9, while at the same time leading to a new debate on whether or when to officially allow Japanese soldiers to execute the right to collective self-defence, i.e., to execute the right to defend soldiers from other countries in the framework of, for example, international and military and peace-keeping operations. While Tokyo does in principle acknowledge that it has the right to execute the right to collective self-defence as formulated in Article 51, Chapter VII of the UN-Charter, it interprets Article 9 of the Japanese Constitution as banning Japanese soldiers from executing that right.

To be sure, there is wide agreement amongst Japanese and non-Japanese scholars and analysts, that Japan's refueling mission in the Indian Ocean (2001-2009) in support of the U.S.-led war in Afghanistan, Japan's mission in Iraq (2004-2006) and the navy's current anti-piracy operation in the Gulf of Aden (since March 2009) are to be understood as operations of collective self-defence as Japan has been and, in the case of the Gulf of Aden, is still, cooperating militarily with other nations. In order to avoid accusations of violating Article 9 of the Japanese constitution, Japan's policy makers referred to the above-mentioned Japanese missions as ones of individual, as opposed to collective self-defence.

²⁶ Article 9 reads: "Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. To accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized."

Supporting other nations in the fight against terrorists and pirates, in Afghanistan, Iraq and the Gulf of Aden, contributes directly to the defence and protection of Japanese national security (under threat from global terrorism)—an argument first put forward under Prime Minister Junichiro Koizumi in 2001 in the wake of the deployment of Japanese navy vessels to the Indian Ocean.

Japan's pro-defence scholars and policy makers, however, have for years been complaining about the government's strategy of seeking to "sell" Japan's missions of collective self-defence as ones of individual self-defence. Instead, it is argued, Tokyo should openly and officially acknowledge that contributions to international missions, as well as Tokyo's commitments and responsibilities in the framework of its bilateral security alliance with the U.S., require the armed forces to be authorised to execute the right to collective self-defence. "It must be possible for Japan to exercise the right to collective self-defence. It is a sheer nonsense to maintain a military alliance when refusing to allow the execution of the right of collective self-defence. Every military alliance includes the option of collective defense which requires the execution of the right to collective self-defence," a Japanese scholar affiliated with a think tank with close links to Japan's Ministry of Defense tells this author.²⁷

Conclusions

The 2010 NDPG do not introduce radical changes to Japan's defence and security policies, but instead adapt the country's defence and military strategies and capabilities to the realities of North East Asian security environment characterised by a North Korea with nuclear ambitions and a China which is becoming increasingly assertive, or indeed aggressive, as regards disputed territories in the East China and South China Seas. Even if it remains very unlikely that Japanese-Chinese territorial disputes in the East China Sea will lead to military confrontation, Tokyo's guidelines confirm that the country's armed forces will be better able to address and counter Chinese intrusions into Japanese-controlled territories in the East China Sea.

The new defence guidelines confirm that the officially pacifist Japan can (almost) do anything "normal" that non-pacifist countries do to defend its

²⁷ Author's interview in March 2011.

national territory, including Japanese territories off the country's mainland in the East China Sea. Due to the reasons explained above, Tokyo's new NDPG do not make a military threat out of Japan, and the restructuring of the armed forces serves exclusively to improve and increase the country's capabilities to deter and counter an attack from the outside. While Tokyo will continue its policy of non-acquisition and non-deployment of offensive military equipment, and will hence continue to be unable to attack or invade another country, policy makers and defence planners in Beijing will nonetheless remain concerned about Japan's official and documented commitment to protect and if necessary defend Japanese-controlled territories in the East China Sea.

Remarkably, for an officially pacifist country, the defence guidelines suggest that Japan will—through the re-structuring and re-location of Japan's armed forces to the southern parts of the country—contribute to Asian regional peace and stability by “exposing” military capabilities and equipment: “Japan can contribute to regional stability by increasing the activity of its defense hardware and clearly demonstrating its advanced capabilities.” Japan's position of exposing military capabilities and firepower as part of the country's supposedly “defensive defense policies” led, at the time of the guidelines' adoption to concerns amongst the guidelines' critics in Japan that they further accelerate what is referred to as the “hollowing out” of war-renouncing Article 9 and an alleged “militarisation” of Japanese foreign and security policies. Realistically, however, the NDPG do not allow for this alleged “militarisation,” not least because they do not stipulate or facilitate the acquisition and deployment of offensive military capabilities. Furthermore, Japanese contributions to international and UN-sanctioned missions will continue to be strictly non-combat in nature, and the country's war-renouncing Article 9 will continue to define and limit what Japanese soldiers are allowed to do abroad. Then again, pacifist countries arguably do not show off military equipment to promote peace and stability, they do not export weapons and weapons technology, and they do not spend almost \$50 billion on defence per year. Japan, however, does all of that.

Michito Tsuruoka

The Potential for EU–Japan Political and Security Cooperation: A Japanese Perspective¹

Introduction

When the Action Plan for EU-Japan cooperation was adopted in December 2001, it was acknowledged that there was “the untapped potential for more extensive contacts and cooperation.”² The document also stated that “We have a particular ambition to develop our relations in the political sphere. Tapping the unrealised potential for cooperation in this area can help us attain the many objectives that we have in common and also broaden the base of our relationship.”³ A decade has since passed.

There is a good reason why the EU and Japan need to strengthen political and security cooperation in today’s international environment. The EU-Japan partnership today is a necessity rather than a luxury. The biggest factor that brings the EU (Europe) and Japan closer together is the changing nature of threats and challenges on the international security scene. Not least in the wake of the 9/11 attacks, there has been a growing awareness

¹ The views expressed in this article are the author’s own and do not necessarily reflect those of the Ministry of Defense or the Government of Japan. An earlier version of this article was presented at a workshop, “The Nexus of Security and Development: Opportunities and Prospects for Europe-Japan Cooperation,” Konrad Adenauer Stiftung (KAS), Berlin, 12–13 September 2011. Part of this article is also drawn from the author’s presentation at a conference, “Facing the Challenges of the New World Order: A Japanese Perspective,” Polish Institute of International Affairs, Warsaw, 10 October 2011.

² “Shaping Our Common Future: An Action Plan for EU-Japan Cooperation,” European Union-Japan Summit, Brussels, December 2001, p. 1.

³ *Ibidem*, p. 4.

that security threats and challenges are now truly global in nature, which means that what is taking place on the other side of the planet can become an immediate and direct concern. As a result, areas of interest and activities of the EU and those of Japan have come to overlap substantially. And the two are facing many common threats and challenges that cannot be addressed alone—international terrorism, proliferation of weapons of mass destruction and ballistic missiles, failed or fragile states, and maritime security, are cases in point. Furthermore, in the context of the shift of the centre of gravity of world power from the West to the East and the South, most notably to Asia, there is a growing awareness in Europe that the security situation in Asia is likely to have a more direct impact on European security in the years ahead.⁴ This is likely to lead to more European engagement in Asia, not only in economic terms, but increasingly also in political and security terms.

The main purpose of this brief article is to assess the current state of EU-Japan political and security relations and suggest ways to develop cooperation. It is indeed easy, and in many respects correct, to argue that the ‘untapped potential’, mentioned in the Action Plan of December 2001, remains untapped ten years after the adoption of the document. This article agrees with this assessment.⁵ Therefore it is necessary to explore why this has been the case, which can be done by examining various factors that still hinder cooperation. At the same time, however, it is important to acknowledge, albeit not in the manner that was envisaged at the time of the Action Plan, that actual political, security and even defence cooperation has been taking place. One of the problems here is the fact that the cooperation that is actually taking place—for example, counter-piracy cooperation—is little-known outside a small circle of officials who are involved in it directly.

The Record so Far and New Possibilities

In addition to the Action Plan of December 2001, successive Joint Press Statements issued in the context of the annual EU-Japan summits since then

⁴ See for example, M. Tsuruoka, “Defining Europe’s Strategic Interests in Asia: The Current State and Challenges Ahead,” *Studia Diplomatica: The Brussels Journal of International Relations*, Vol. 64, No. 3, 2011.

⁵ For critical views on the results of the Action Plan, see, for example, A. Berkofsky, “The EU and Japan: A Partnership in the Making,” *EPC Issue Paper*, No. 52, European Policy Centre, Brussels, February 2007; A. Berkofsky, “The EU’s Relations with China, Japan and North Korea: Implications for the EU’s Role and Engagement in Asian Security,” *Working Paper*, No. 36, ISPI, Rome, February 2010.

have mentioned and envisioned a large number of joint projects and cooperation goals. While the number of envisioned joint projects is impressive, this is less the case for actual cooperation in the areas of foreign policy and security. The Action Plan established four pillars of cooperation, one of which concerns political and security cooperation under the heading of “promoting peace and security.” Japanese officials in charge of drafting summit statements admit that they often find it difficult to come up with substantial political and security items to be included. As a result, they say, politically irrelevant or unimportant—and often artificially formulated—items are played up, and the final lists represent little more than just ‘cooperation for the sake of cooperation’ (or worse, for the sake of cosmetics needed only to give the impression of the success of any given EU-Japan summit).

Nonetheless, this does not mean that no progress at all has been made in the past decade in the field of EU-Japan political and security cooperation. A couple of promising modalities or possibilities, which can be explored and expanded upon in the coming years, have in fact emerged.

The first such possibility is a “non-U.S.” element to EU-Japan cooperation. One has to acknowledge that the EU and Japan are not likely to be each other’s “partners of first choice” when addressing various international challenges, particularly those of a high-profile nature, at least for the foreseeable future. Both for Europe and for Japan, the United States remains the natural primary partner. What is important, nonetheless, is not to consider this as hindering cooperation between Europe and Japan. The past decade or two have demonstrated that Washington is not always available as a partner on the international scene. At the same time, this emphasis on the “non-U.S.” element to Europe-Japan cooperation should not be considered as anti-American. What this means is simply that, when and where cooperation with the U.S. cannot take place—and there are in fact a number of such cases—the EU and Japan can be good alternative partners.

While just a small project, the EU-Japan joint capacity-building seminars in Tajikistan, which were held in 2009, 2010 and 2012 and aimed at developing the country’s border management capacities, are a case in point.⁶

⁶ The project is mentioned in “Joint Press Statement,” 18th EU-Japan Summit, Prague, 4 May 2009, para. 23; “Joint Press Statement,” 19th EU-Japan Summit, Tokyo, 28 April 2010, para. 8. The conference in 2012 issued a set of recommendations. See “Recommendation from the Japan-EU Conference on Tajikistan-Afghanistan Border Management and Cross-border Cooperation,” Dushanbe, 28–29 February 2012.

In light of strategic sensitivities involving Russia and Afghanistan, it would have been difficult to partner with the U.S. in this project. But the EU and Japan were prepared to give assistance to the Tajik authorities in this regard. The fact that the EU's and Japan's approaches are similar also helps a lot in facilitating this sort of cooperation. The Tajik project is just a small beginning. There are actually many geographical and functional areas where cooperation with the U.S. cannot work or is too sensitive. Whether in the context of preventive diplomacy, crisis management, post-conflict reconstruction and development, or capacity-building in developing countries, "non-U.S." cooperation between the EU and Japan will be needed more in the future.

Secondly, it should be noted that operational cooperation—both civilian and military—is becoming a reality. Particularly noteworthy is the military aspect of this. What could be called "non-combat military cooperation" between the EU and Japan has emerged as a new and promising field, in addition to other forms of political and security cooperation. This may sound counter-intuitive, given the general unwillingness and unpreparedness to use force in both Japan and the EU,⁷ and the resultant limited nature of the two actors' military roles in the international arena. It is obvious that Europe-Japan (let alone EU-Japan) joint combat remains almost inconceivable. However, as the roles of the military become more diverse and multifaceted in today's world, non-combat activities including crisis management, disaster relief and humanitarian assistance are becoming more common and occupying a more central stage.

EU-Japan non-combat military cooperation is already taking place, and it is likely that this will continue and be expanded as one of the main pillars of bilateral security cooperation. Counter-piracy cooperation off the coast of Somalia and in the Gulf of Aden is one example. Japan is deploying two Maritime Self-Defence Force (JMSDF) vessels and two patrol aircraft (P-3C), using Djibouti as a supply base.⁸ The Japanese vessels escort commercial ships in groups—both Japanese and non-Japanese. When and where to conduct such missions is (loosely) coordinated with other countries and information is shared. But as far as the vessels' operations are

⁷ Strategic cultures in individual EU member states vary greatly. But, at least as far as the EU (in the context of CSDP) is concerned, the use of force remains controversial and it is extremely difficult to build a consensus in this regard among the EU members.

⁸ For details on Japan's counter-piracy operation by JMSDF, see "Defense of Japan 2011," Ministry of Defense, Tokyo, August 2011.

concerned, the JMSDF operation remains essentially an independent national mission. However, aerial patrols are firmly embedded in joint international efforts. This is facilitated by two major factors. First, Djibouti airport, where the Japanese aircraft are based, is also used by patrol aircraft of the EU mission (EUNAVFOR Atalanta), which means that coordination between the two operations is relatively easy. Second, given the shortage of air assets such as patrol aircraft available for the EU operation and the international efforts there as a whole, division of labour or operational cooperation is imperative: there is no other choice. As a result, what is taking place is a *de facto* joint operation between the EU and Japanese forces. The 2010 EU-Japan Summit in Tokyo acknowledged this as “joint efforts” and “commended the fruitful interaction” between the two forces.⁹ But the fact remains that Japan is not participating formally in the EU operation. Actual cooperation in the theatre essentially takes place on an ad-hoc basis, lacking the formal foundation on which to build cooperation.

What Japan has found particularly in the past ten years’ experience of engagement in international peace operations—including both UN operations and so-called U.S.-led “*coalition of the willing*” operations—is the fact that whenever and wherever Tokyo sends SDF troops abroad, they see European forces operating in the same theatre, side by side. In the Indian Ocean, Iraq and now off the coast of Somalia and Djibouti, SDF troops have been cooperating with European counterparts both in a bilateral way (as in the cases of the Indian Ocean and Iraq) and in the EU-Japan context (as in the case of counter-piracy).

While it is generally believed that the term “*operational cooperation*” has only military connotations, in reality that is not the case. Instead, it can be used in a civilian context as well. There are various possibilities. One option is for Japan to participate in Common Security and Defence Policy (CSDP) civilian missions. Indeed, Tokyo expressed its interest in sending civilian personnel to CSDP missions on the occasion of the EU-Japan Summit in April 2010.¹⁰ While such a Japanese contribution has yet to materialise, it should not be seen as a one-sided contribution from Japan to the EU. From a Japanese perspective, it means that Japan uses the EU as a framework enabling it to expand its reach and develop experience and expertise in civilian crisis management. It may be true that the EU’s record so far and

⁹ “Joint Press Statement,” 19th EU-Japan Summit, Tokyo, 28 April 2010, para. 10.

¹⁰ *Ibidem*, para. 9.

capabilities in civilian crisis management are less impressive than usually believed.¹¹ However, at least for those areas in which the EU has an established presence but Japan does not, such as in Kosovo, cooperation with the EU would no doubt be an efficient way for Japan to expand its area of activities. In this regard, Tokyo can “use” the EU.¹² The idea of using the EU as a framework can therefore, from a Japanese point of view, be applied both to military and civilian cooperation.

Remaining Hurdles

While new possibilities are emerging in EU-Japan political and security cooperation, there are still factors that hinder cooperation. First, there is still a lack of attention to and awareness of each other as relevant partners in international politics and security. In other words, in addressing a range of international issues, the EU does not often appear on Japan’s radar, and vice versa. What Simon Nuttall referred to in 1996 as “a climate of relative indifference”¹³ between the EU and Japan, does not seem to have changed substantially. As discussed above, the EU and Japan will not necessarily and always be partners of first choice in the foreseeable future. But so as to reap the potential benefit of cooperation, the EU and Japan do at least need to recognise each other as available partners on a regular basis. The prospective launch of Free Trade Agreement (FTA) and political agreement negotiations (discussed in the next section) can be expected to change the “climate of relative indifference” between the two sides.

Second, in thinking about EU-Japan political and security cooperation and beyond, the most difficult reality—or an “inconvenient truth”—that

¹¹ See, for example, C. Chivvis, *EU Civilian Crisis Management: The Record So Far*, RAND, Santa Monica, 2010; D. Korski, R. Gowan, *Can the EU Rebuild Failing States? A Review of Europe’s Civilian Capacities*, European Council on Foreign Relations, London, 2009.

¹² For the author’s similar argument in the context of NATO-Japan/Asian cooperation, see M. Tsuruoka, “NATO and Japan: A View from Tokyo,” *RUSI Journal*, Vol. 156, No. 6, December 2011; M. Tsuruoka, “Asia, NATO and Its Partners: Complicated Relationships?” *NATO Review*, March 2010, reprinted in *NATO Review*, Lisbon Summit Special Edition, November 2010.

¹³ S. Nuttall, “Japan and the European Union: Reluctant Partners,” *Survival*, Vol. 38, No. 2, 1996, p. 104. On this perspective, see also M. Tsuruoka, “‘Expectations Deficit’ in EU-Japan Relations: Why the Relationship Cannot Flourish,” *Current Politics and Economics of Asia*, Special Issue on the European Union and Asia, Vol. 17, No. 1, 2008.

needs to be understood is the fact that the EU and Japan are sometimes also rivals and competitors. This is mainly because the EU and Japan are similar players—meaning that both have comparative advantages in similar areas, such as development assistance (Official Development Assistance, ODA). On one hand, it can be argued that being similar is conducive to cooperation as partners, because similar players are supposed to understand each other better. In reality, however, that is not always the case, as similar players tend to end up being rivals. This is exemplified by the fact that Japan is cooperating more with NATO, not the EU, in Afghanistan. Though Japan is not a troop contributor to the NATO-led mission there (International Security Assistance Force), various mechanisms have been established, geared specifically towards NATO-Japan cooperation in Afghanistan, including a scheme through which Japan's ODA money goes to local projects done in coordination with various Provincial Reconstruction Teams (PRTs) in the framework of the ISAF mission. Japan has also contributed funding to a NATO-led trust fund project on stockpile management and ammunition safety for the Afghan Ministry of Defence.¹⁴ These projects were formulated in the spirit of complementarity between NATO, which has a lot of experience and expertise in security and military affairs, and Japan, which is equipped with useful expertise and experience in economic and reconstruction assistance. NATO needs Japan as a partner as much as Japan needs NATO. With respect to the EU, despite the fact that Japan and the EU have talked a lot about possible cooperation in Afghanistan, nothing substantial has yet materialised. Nonetheless, the good news in terms of Europe-Japan relations as such, is that Japan has been cooperating with various individual European countries in the context of NATO-Japan cooperation. The Lithuanian-led PRT in Ghor province, to which Japan has sent several development experts and allocated its ODA, is a good example.

Institutionalising Cooperation?

When thinking about the future direction of political and security cooperation between the EU and Japan, one of the main issues to be examined is the kind of framework that is necessary in order to make bilateral cooperation smoother and more effective. Assuming that something is necessary, the next question is which options are available for

¹⁴ For more details on Japanese-NATO cooperation in Afghanistan, see M. Tsuruoka, "NATO and Japan: A View from Tokyo," *op. cit.*

what specific purposes. There are currently two possibilities for the institutionalisation of the political and security relationship—a political framework agreement, and a CSDP framework participation agreement.¹⁵

First, the idea of concluding a political agreement between the EU and Japan is now firmly on the agenda in the context of the prospective launch of the free trade agreement (FTA) negotiations. The EU-Japan summit in May 2011 agreed to begin “*parallel negotiations*” for an FTA and a “binding agreement, covering political, global and other sectoral cooperation in a comprehensive manner, and underpinned by their shared commitment to fundamental values and principles.”¹⁶ It is generally understood that it was the EU that wanted to make the process a parallel one—not focusing solely on the FTA (which Japan wanted), but including the political agreement (which Japan accepted somewhat reluctantly).

Negotiating a package of an FTA and a framework agreement is now a standard EU practice, which can also be seen in the case of the EU-South Korea FTA (despite the fact that the framework agreement is less well-known than the FTA). The scope of the framework agreement has yet to be decided, but it is widely assumed that provisions for political and security cooperation will be important pillars of the prospective agreement. This parallel process itself can be said to be effective in terms of stimulating the relationship, about which it is often said that “the problem is that there are no problems” or “too much is taken for granted.”

However, justification of the necessity of this political framework agreement is still unclear, to say the least. Apart from the fact that the inclusion of the idea of the framework agreement was a precondition for the FTA process (something Brussels insisted on), the rationale and benefits of concluding a legally binding treaty as opposed to a political declaration covering cooperation in foreign and security policy do not seem to have been well-presented by the authorities. The following questions, amongst others, need to be asked and answered. Whether, how and to what extent is the prospective agreement expected to make a difference in terms of strengthening political and security cooperation? Why is this binding

¹⁵ In the trade and economic domain, the most important initiative is obviously the idea of concluding a free trade agreement (FTA). Major formal agreements that have so far been concluded between the EU and Japan include several mutual recognition agreements (MRAs), a science and technology agreement and a mutual legal assistance treaty (MLAT). These are often called “visible” elements in EU-Japan cooperation.

¹⁶ “Joint Press Statement,” 20th EU-Japan Summit, Brussels, 28 May 2011.

agreement thought to be more effective than previous efforts, including the Action Plan, in promoting political and security cooperation? Is a binding agreement a suitable way to strengthen political and security cooperation, not least given that Japan is not accustomed to this kind of practice?¹⁷

While recognising the necessity of the political framework agreement (partly as a necessary counterpart to the FTA), the bottom line has to be that institutionalising the relationship should not be perceived as an end in itself: institutionalisation for the sake of institutionalisation would not make much sense. It should be a means to achieve something substantial, which cannot be achieved by other means. In light of the fact that the start of negotiations for a political framework agreement is imminent, it is indeed necessary for both EU and Japanese authorities (and to a lesser extent for experts alike) to present a set of concrete objectives that this agreement is intended to achieve.

Second, assuming that operational cooperation between the EU and Japan, such as the counter-piracy mission, will continue, it is advisable to have a formal basis on which to build cooperation for the purpose of making the whole procedure more predictable, transparent, accountable and smoother. In this regard, the first step would be to conclude a security agreement (i.e., an agreement on the security of classified information). Currently, information gathered by Japanese patrol aircraft in the Gulf of Aden is shared in real-time with the EU forces. The reason that this can be done without a security agreement is that such information is not considered to be classified. Nevertheless, it is not difficult to imagine that there are gray areas regarding what is and is not allowed within the current rules and regulations.

Japan and NATO signed a legally binding security agreement in June 2010.¹⁸ For historical reasons, and as a reflection of intelligence culture in Japan (or the lack thereof), the very idea of concluding security agreements was unpopular and the government was reluctant to sign such an agreement

¹⁷ Japan has a binding security treaty with the U.S., with provisions covering not only defence of Japan, but also general cooperation between the two countries including the economy. Apart from the Japan-U.S. security treaty, Japan has no legally binding agreement covering political and security cooperation with any other country in the world.

¹⁸ The official title of the agreement is the “Agreement between the Government of Japan and the North Atlantic Treaty Organization on the Security of Information and Material.” It was signed in Brussels on 25 June 2010.

even with its ally, the United States. But the government managed to conclude the GSOMIA (General Security of Military Information Agreement) with the U.S. in August 2007, which paved a way for more security agreements with other countries and organisations like NATO. A similar security agreement was concluded with France in October 2011.¹⁹ Negotiations of a few more security agreements are still underway. Given that it is likely that operational cooperation between the EU and Japan will continue on counter-piracy and beyond, concluding a security agreement with the EU might be the next logical step in consolidating such cooperation.

Another possibility, although maybe a rather distant goal, could be to adopt a CSDP framework participation agreement. Every country that wishes to participate in EU-led CSDP missions needs to sign a participation agreement with the EU that stipulates legal and other arrangements regarding participation. A framework participation agreement is a standing mechanism that allows non-EU signatories a speedy route to participation, without having to conclude a separate agreement each time.²⁰ It also signals that the signatory is willing and prepared to participate in EU-led missions on a regular basis. Japan has never participated in EU-led missions. As for military missions, there are complicated questions regarding the right of collective self-defence, which the Japanese government says it possesses, but is not allowed to exercise. Civilian missions, on the other hand, are not faced with such problems.

As mentioned above, Tokyo expressed its interest in participating in CSDP civilian missions, at the EU-Japan Summit in April 2010.²¹ As of the time of writing, Japan has yet to make any decision in this regard, but it nonetheless remains on Tokyo's EU agenda. If and when Japan participates in a CSDP mission (whether civilian or military), Tokyo needs to sign a participation agreement. The first of such negotiations would, as always, be difficult. But it would pave the way for further development of cooperation in this field.

¹⁹ "Signing on the Agreement between the Government of Japan and the Government of the French Republic on the Security of Information," Press Release, Ministry of Foreign Affairs, Tokyo, 24 October 2011.

²⁰ C. Töro, "External State Partners in ESDP Missions: Third Country Participation in EU Crisis Management," *European Foreign Affairs Review*, Vol. 15, No. 3, August 2010, pp. 332–335.

²¹ "Joint Press Statement," 19th EU-Japan Summit, Tokyo, 28 April 2010, para. 9.

Conclusions: Using Each Other

It is still most probably the case that political and security cooperation is the weakest pillar in the overall EU-Japan relationship. And there are still difficult hurdles which must be overcome in those areas, if cooperation is to be developed. However, as this article has argued, new possibilities have emerged in recent years. It remains to be seen how non-combat military cooperation and other types of cooperation could develop. Regardless of specific areas of cooperation, the key to success is to move beyond the superficial nature of “cooperation for the sake of cooperation.” It needs to be replaced by a new spirit of what could be referred to as “using each other.”²² In international relations—probably as in all human interactions—being useful to your partner is the surest way to build a true partnership. The EU and Japan cannot be exceptions to this. This may sound too materialistic, but, particularly in the case of geographically distant partners such as the EU and Japan, a material foundation is indispensable in building a substantial and sustainable partnership.

²² M. Tsuruoka, “Linking Japan and the Transatlantic Community in the Age of Asia’s Rise,” *Policy Brief*, German Marshall Fund of the United States, Washington, D.C., September 2009; M. Tsuruoka, “Japan-Europe Security Cooperation: How to ‘Use’ NATO and the EU,” *NIDS Journal of Defense and Security*, No. 12, December 2011.

EU-Asia Interdependence at a Time of Crisis

Asia accounts for more than 60% of the world's population, more than one-third of global output, and around one-third of the world's international trade. In this region, China's status is growing to that of a great power, and countries such as India, South Korea, Indonesia and Australia are providing much in terms of global growth and prosperity. The EU-27 is today the world's largest market and represents around one-third of global economic output. Notwithstanding the current debt crisis, the EU remains an important outlet for Asia's export-driven economies. Almost one-third of Europe's global trade is with Asia, while the EU is an important (if not the most important) trading partner for many Asian countries, in many cases surpassing the U.S. in terms of volume of trade.

On a sound economic basis, EU-Asia relations, including cooperation in political and security-related policy fields, have grown in quantity and quality in the last two decades. These developments have taken place in an international environment characterised by U.S. primacy. Under the protective military umbrella of the U.S., Europe and Asia have thus been able to deepen their ties across the board.

This paper provides an examination of the growing interdependence between the EU and Asian countries in economic, monetary and security-political affairs. It argues that the two sides have become indispensable partners for each other's development, and that both Europe's current debt crisis and the evolving security dynamics in Asia will, if not properly addressed, have a bearing not only within each region, but also between them. There is, therefore, a need for both EU and Asian policy makers to discuss further their respective roles in each other's region, in order to find mutually beneficial solutions in the years ahead.

Economic and Monetary Interdependence

The EU and Asia are increasingly interconnected at the commercial and monetary level. Today, Asia accounts for almost a third of Europe's global trade while the EU has become a significant trading partner for many Asian states. Despite the recent economic downturn in the developed world and Europe's debt crisis, EU-Asia bilateral trade has continued to surge, in particular with some of the region's major powers.

The EU has become China's biggest trading partner, while China is second only to the U.S. among the EU's commercial partners, and is by far Europe's main source of imports. In 2010, EU-China trade amounted to €395 billion. In terms of volume, Sino-European two-way trade surpasses U.S.-China trade. By the end of 2012, China is expected to become the EU's first trading partner. The EU is Japan's third most important trading partner, after China and the U.S. In 2010, EU-Japan trade was almost €100 billion. With regard to South Korea, the EU is its second largest export destination (after China, but ahead of the U.S.) while Seoul is the EU's eighth largest trade partner. Trade between them was above €60 billion in 2010. This was boosted, on October 6th, 2010, when the EU and South Korea signed a Free Trade Agreement (FTA). This is the most ambitious bilateral trade agreement ever negotiated by the EU, and the first with an Asian country. Discussions are currently underway for a similar trade pact with Japan and the Association of Southeast Asian Nations (ASEAN) which is the EU's third largest trading partner outside Europe (after the U.S. and China), with more than €175 billion of trade in goods and services in 2010. Conversely, the EU is ASEAN's second largest trading partner after China, accounting for around 11% of its trade. Moreover, the EU is by far the largest investor in ASEAN countries. EU companies invested around €9.1 billion annually on average in the period 2000-2009. The total stock of mutual investments between the EU and ASEAN today exceeds €125 billion.¹ Japan and South Korea have traditionally invested in Europe. In recent times, however, China's growing investments have attracted much of the attention.

According to analysts at Grisons Peak Merchant Bank, Chinese FDIs in the EU soared by 297% in 2010 (compared to 2009) to reach \$2.13 billion

¹ Data from the European External Action Service (EEAS) and European Commission (DG Trade) websites.

(€1.48 billion).² Europe is proving more fertile ground for Chinese investments than is the U.S.; China's total investments in Europe are, in fact, 53% greater than the \$1.39 billion that went to the U.S. in 2010, according to the Chinese Ministry of Commerce. In a recently published report by the European Council on Foreign Relations, the authors (Francois Godement, Jonas Parello-Plesner and Alice Richard) called this trend *The Scramble for Europe*.³ Europe's sovereign debt crisis provides Chinese investors with further opportunities, as underlined by a recent report by the Rhodium Group.⁴

Growing interdependence between the EU and Asian countries is not limited to trade and investments. The two sides are also becoming more and more interlocked on monetary issues. The euro has, in fact, become an important reserve currency for Asia's central banks, second only to the U.S. dollar. The ascent of the euro in the region has been supported particularly by the Chinese government. When the euro was created in 1999, China hailed the event as a seminal challenge to U.S. domination of the global economy, and a landmark step towards the creation of a multi-polar currency system. After the euro started circulating on January 1st, 2002, Beijing was one of the first buyers of the new currency. Today, there are indications that the euro accounts for between one third and one quarter of China's total foreign reserves. In June 2011, economists at Standard Chartered Bank evaluated that the holdings in euro on China's total foreign reserves were in between 26–28%, while holdings in U.S. dollars were in between 63–67%.⁵

China and other Asian countries began diversifying away from the dollar in earnest in 2011, by buying far more European government debt than U.S. dollar assets. According to estimates, China's foreign exchange reserves

² Grisons Peak Merchant Bank, "China Outbound Investment Research Report," *Quarterly Feature*, Vol. 9 (Q1), 2011.

³ F. Godement, J. Parello-Plesner, A. Richard, *The Scramble for Europe*, Policy Brief no. 37, European Council on Foreign Relations, London, July 2011.

⁴ T. Hanemann and D. H. Rosen, *China Invests in Europe*, New York, Rhodium Group, June 2012.

⁵ L. Shen, S. Green, T. Costerg, "China: Less America, more Europe," *Standard Chartered Global Research*, 20 June 2011. These numbers are in line with the holdings of the euro and the dollar among the world's major central banks: around 27% for the euro and 65% for the dollar. See also: International Monetary Fund, *Currency Composition of Official Foreign Exchange Reserves* (COFER) database.

alone expanded by around \$200 billion in the first four months of 2011, with three-quarters of the new inflow invested abroad in non-U.S. dollar assets.⁶ This process of diversification of China's foreign assets is particularly significant since Beijing has accumulated the world's largest foreign reserves.⁷

Beijing's continued trust in the European common currency is shared by other Asian governments. Investors from the Far East represented, in fact, a strong proportion of the buyers of Portuguese bail-out bonds when the eurozone's €440 billion rescue fund began auctioning them in June 2011.⁸ The interest from both public and private Asian financial institutions cannot, however, be interpreted as an endorsement of how Europe is handling the debt crisis in some eurozone countries. The primary motivations lie in finding new, safe investments in which to put Asia's growing cash piles, and in diversifying risk away from the U.S. dollar. Some Asian governments, in particular Beijing, have voiced growing disaffection for the loose monetary policy of the U.S. Federal Reserve. At the same time, Chinese and Japanese officials intervened at various times in 2011 and 2012 to reassure markets and the Europeans that they will continue to buy bonds from eurozone countries.

Growing economic and monetary interdependence between the EU and Asian countries means that any turbulence and/or instability within—and between—each region's major powers would have a direct bearing on the socio-economic welfare of the other. Asian scholars and policymakers have begun examining the implications of Europe's debt crisis for their region. In this vein, some Asian governments have intervened to buy euro-denominated assets and sustain the value of the European common currency. By doing so, they have contributed to the stabilisation of the eurozone and sent a reassuring message to markets. A worsening of Europe's debt crisis will, in fact, affect Asian countries in terms of diminishing volumes of trade (with consequences for domestic production and employment).

⁶ See: J. Anderlini, T. Alloway, "Trades reveal China shift from dollar," *Financial Times*, 21 June 2011, p. 1. See also: J. Farcy, "Central banks see shift from dollar," *Financial Times*, 28 June 2011, p. 24.

⁷ About \$3,500 billion at the end of June 2012. For an analysis of the strategic significance of these reserves see: D. W. Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics," *International Security*, Vol. 34, No. 2, Fall 2009, pp. 7–45.

⁸ Author's Interview, European Commission, Brussels, March 2012.

In Europe, scholars and policy makers alike have made the link between the maintenance of a peaceful and stable environment in Asia, and Europe's prosperity. The *Guidelines on the EU's Foreign and Security Policy in East Asia*, adopted by the Council of the EU in December 2007 and revised in 2012, open with the recognition of East Asia as a region of especially dynamic change in which the EU has substantial interests. The document asserts that "taken together mainland China (including Hong Kong and Macau), Taiwan, Japan, Korea and ASEAN account for around 21% of global GDP and for some 28% of the EU's global trade in goods and services (in 2010) and these proportions continue to rise." The *Guidelines* maintain that the EU's trade with East Asia (28% of EU total trade) is now significantly greater than transatlantic trade (around 23%).⁹

Developing a Security-Political Linkage

Various EU official documents have stated that peace and security in Asia are a precondition for continuing prosperity and growth. In its 2001 *Communication* on Asia, the European Commission argues that Europe's economic well-being may be jeopardised not only by market turbulence in the Asian region – as during the financial crisis of 1997/98 – but also by political instability. European concerns for Asia's security were included in the *European Security Strategy* (ESS) paper, adopted by the European Council in Brussels on December 12th, 2003. The ESS states that "problems such as those in Kashmir [...] and the Korean Peninsula impact on European interests directly and indirectly [...] nuclear activities in North Korea, nuclear risks in South Asia...are all of concern to Europe."¹⁰ In a speech in July 2005, Benita Ferrero-Waldner, then EU Commissioner for External Relations, stated that "security in the Far East is a topic of direct concern to European interests. It is part of the overall global responsibility for security

⁹ Council of the EU, "Guidelines on the EU's Foreign and Security Policy in East Asia," (11492/12), Brussels, June 15, 2012, p. 3, point. 3. This is the revised version of the "Guidelines on the EU's Foreign and Security Policy in East Asia," adopted by the Council of the EU during the 2,842nd Council Meeting (16183/07), Brussels, 20 December 2007.

¹⁰ European Council, "A Secure Europe in a Better World: European Security Strategy," Brussels, 12 December 2003, p. 11.

and stability that lies at the heart of the EU's role in foreign policy."¹¹ The *Guidelines on the EU's Foreign and Security Policy in East Asia* assert that 'East Asian security and stability is a precondition for the region's continued economic success.'¹² Catherine Ashton, the High Representative of the Union for Foreign Affairs and Security Policy, has remarked several times that security and the peaceful resolution of outstanding disputes in Asia is a major concern for the EU.¹³ But what have the EU and its member states done in order to contribute to peace and security in Asia?

Soft Security Issues

The involvement of the EU and its member states in Asian security affairs dates back to the early 1990s, and has intensified in recent times. For instance, the EU is a member of the multilateral security activities of the ASEAN Regional Forum (ARF) and the Council for Security Cooperation in Asia Pacific (CSCAP). The ARF as 'track-one' represents the governmental level (in particular, diplomats from the foreign ministries), while CSCAP as 'track-two' involves regional experts of think tanks and universities, as well as government officials in a private capacity. With the establishment of ASEM in 1996, a 'track-two' was initiated, which also includes a multilateral security dialogue on various levels between Europe and Asia. In September 1997, the EU, through the European Commission also became a member of the Korean Energy Development Organization (KEDO), created to implement denuclearisation of the Korean peninsula.

The EU and its member states have contributed to peace and security in the region by assisting the establishment of democratic governments in Cambodia, East Timor and Afghanistan. Moreover, the EU has been instrumental in ensuring the implementation of the peace agreement between the Government of Indonesia and the Free Aceh Movement (GAM), which fights for the independence of the Indonesian province of

¹¹ B. Ferrero-Waldner, "Security in the Far East," Speech of the EU Commissioner for External Relations at the European Parliament (SPEECH/05/421), Strasbourg, 6 July 2005, p. 1.

¹² "Guidelines on the EU's Foreign and Security Policy in East Asia," (2012), *op. cit.*, p. 5, point 4.

¹³ C. Ashton, "Remarks by HR/VP Catherine Ashton at the 10th ASEM Foreign Ministers' Meeting," Speech of the High-Representative of the Union for Foreign Affairs and Security Policy (A 225/11), Brussels, 6 June 2011.

Aceh. The EU is also contributing to the search for a solution to the conflict between the Muslim population in Mindanao and the Manila-based central authorities in the Philippines. The EU has long been involved in Mindanao, initially through development cooperation (rural development, health) and through humanitarian aid (assistance to internally-displaced persons and returnees). More recently, the EU has become more directly involved in peace-building and peace-monitoring, while one EU member, the United Kingdom, also plays a role in supporting the negotiations between the conflicting parties.

The EU continues to contribute to regional peace and stability by supporting the protection of human rights and the spread of democracy, good governance and the rule of law. Alongside the promotion of the Union's fundamental values, the EU and its member states have also provided substantial humanitarian assistance to Asia, in particular in Afghanistan, Timor, North Korea and Indonesia. In 2005, a major effort was made to help the victims of the Tsunami in Southeast Asia, and in 2011 for those affected by the Great Eastern earthquake that hit Japan. Finally, the European Commission has built global partnerships and alliances with Asian countries in international forums to help address the challenges of the globalisation process. Particular emphasis is given here to EU-Asia cooperation in the ASEM framework, aimed at addressing non-traditional security issues such as climate change, food and energy security, migration and terrorism.

The EU is mainly perceived in Asia as a civilian power, endowed with a formidable set of soft power capabilities. Europe has no permanent military forces deployed in the region. Yet, the suggestion that Europe is largely absent from the region's security affairs and strategic balance would be utterly misleading. EU member states continue, in fact, to be enmeshed in the region's security dynamics and balance of power calculations. Great Britain, for instance, is still a member of the Five-Power Defence Arrangements (FPDA), a military consultation agreement with Australia, Malaysia, New Zealand and Singapore. France has an operational military presence in the Indian Ocean and the South Pacific, with thousand of troops which can be deployed in Asia in a relatively short time. A number of bilateral security and military cooperation agreements between EU members and Asian countries have been initiated in recent times. In the NATO framework, some EU member states collaborate with the United States' Asian allies such as Japan, South Korea, Australia and New Zealand. They are often referred to by NATO members as "other partners across the

globe” or “contact countries.” The above mentioned Asian countries share similar strategic concerns and key NATO values, and all of them are long-standing allies of Washington.

Some EU members have also undertaken consultations, military exchanges and joint manoeuvres with the People’s Liberation Army (PLA). Germany, for instance, maintains high-level consultations on security and defence matters with China, underpinned by regular visits of high-ranking military and civilian representatives. Germany is also training PLA officers. France and China have established a strategic dialogue, and have held annual consultations on defence and security issues since 1997, complemented by the training of Chinese military officers. France and China held their first joint military exercises in the South China Sea in March 2004. Since 2003, the UK has also started an annual strategic security dialogue with Beijing, including the training of PLA officers. Following France, in June 2004, the UK held joint search-and-rescue exercises with the PLA.

Hard Security Issues

In addition to bilateral security agreements, multilateral security activities and military cooperation, which could be perceived as soft security issues, some EU member states get involved (though often inadvertently so) with Asia’s strategic balance and security dynamics through the sale of arms and weapons systems. In recent years, Asia has become an increasingly important market for the European defence and aerospace sector, which depends more and more on exports for the bulk of its revenues. The Asian region, driven mostly by China, India and South-East Asian countries, has emerged as one of the largest developing world markets for arms sales. The *Twelfth EU Annual Report on Arms Exports* states that arms sales to the Asian region remains significant. In 2010 (based on 2009 data), EU members issued a total of 3,080 licences to countries in North-East Asia, worth €787 million;¹⁴ a total of 4,520 licences to countries in South Asia, worth €2,072 million,¹⁵ and a total of 3,322 licences to countries in South-East Asia, worth €2,106 million.¹⁶

¹⁴ “Twelfth Annual Report of the EU on Arms Exports,” *Official Journal of the European Union*, Brussels, 13 January 2011, pp. 348–351.

¹⁵ *Ibidem*, pp. 366–372.

¹⁶ *Ibidem*, pp. 372–377.

The question of arms sales in Asia is particularly sensitive in relation to China. Notwithstanding the existence of an arms embargo and the security concerns of the U.S. and its main Asian allies, some EU governments (and their arms manufacturers) continue to sell arms, or components for arms, to China. According to the above-mentioned EU report on arms exports, five countries have partially sidestepped the embargo by supplying China with components for military equipment.¹⁷ The countries in question are the Czech Republic, France, Germany, Italy and the United Kingdom issuing a total of 410 licences worth €209 million. France's share of exports was largest (169 licences worth €199 million), followed by the United Kingdom (215 licences worth €7 million) and Italy (five licences worth €2 million). With regard to the items sold, the majority were in the ML15 category (imaging or countermeasure equipment, specially designed for military use), and the ML10 category (aircraft, unmanned airborne vehicles, aero-engines, and aircraft equipment). France alone granted 103 ML15 licences, worth €95 million. These sales were possible due to the nature of the EC/EU arms embargo. When Europe's ban on arms sales to China was adopted on June 27, 1989, it took the form of a European Council Declaration. This was a non-legally binding political declaration with a scope that was not clearly defined. As a consequence, EC/EU member states implement it in various ways, to conform to their own national export control regulations and policies towards China.¹⁸

In addition to the sale of arms and weapons systems, the EU and its member states have also fostered the promotion of their aerospace interests in Asia. This is important for Europe's industry, as the demand for aerospace products (both civilian and military) over the next 20 years is projected to arise from outside the U.S. or European markets, mainly from Asia and, in particular, China and India. In this context, the EU has invited a number of

¹⁷ *Ibidem*, pp. 313–314.

¹⁸ For more details on EU-China relations and the Chinese arms embargo issue see: M. Zaborowski, *Facing China's rise: Guidelines for an EU Strategy*, Chaillot Paper, No. 94, EUISS, Paris, 2006; P. Vennesson, "Lifting the EU Arms Embargo on China: Symbols and Strategy," *Euramerica*, Vol. 37, No. 3, September 2007, pp. 417–444; D. Shambaugh, E. Sandschneider and Z. Hong (eds.), *China-Europe Relations: Perceptions, Policies and Prospects*, Routledge, London, 2008; N. Casarini, *Remaking Global Order: The Evolution of Europe-China Relations and its Implications for East Asia and the United States*, Oxford University Press, Oxford, 2009; F.-P. van der Putten, S. Chu (eds.), *China, Europe and International Security: Interests, Roles and Prospects*, Routledge, Oxon, 2010.

Asian countries to collaborate in the development of the EU-led Galileo satellite navigation system. The EU signed cooperation agreements on the joint development of Galileo and other space-based technologies with China (2003), India (2006) and South Korea (2006). Moreover, unofficial cooperation between EU aerospace companies and their Japanese and Taiwanese counterparts is currently underway. This entails important transfers of European advanced technology (including dual-use technology) and industrial know-how in the region.

The promotion of the EU's defence and aerospace interests represent huge commercial opportunities for a European manufacturing sector which continues to suffer from the current economic downturn. Yet, it also reflects an upgrading of Europe's presence in the region as the Union gradually becomes entangled in Asia's strategic balance and security calculations. The problem here is that this growing European presence in Asia's security dynamics has not yet been accompanied by a clear political vision of the place and role of the EU in the area. EU policy makers appear to have shied away from a thorough discussion of the implications of European arms sales and the promotion of EU space interests for the region's strategic balance, in particular when it comes to transfers of advanced technology and support for China's space programme in a regional environment still characterised by balance-of-power logic.

An EU Strategic Vision for Asia?

The only notable attempt by the EU to come to terms with the evolving security dynamics in Asia and the perceived implications of initiatives such as the proposal to lift the EU arms embargo on China is represented by the adoption of the *Guidelines on the EU's Foreign and Security Policy in East Asia* by the Council of the EU in December 2007, revised in 2012.

Both the 2007 and 2012 version of the *Guidelines* open with the recognition of East Asia as an area of especially dynamic change in which the EU has substantial interests. They recognise, as is mentioned above, that security and stability in East Asia are indispensable for the region's continued economic development. There is explicit mention of the region's strategic balance which is "shifting" due to China's economic rise and active diplomacy. According to the document, the EU has a stake in good cooperative relations between the region's major powers (the U.S., China and Japan), adding that "the U.S.'s security commitments to Japan, the Republic of Korea and Taiwan and the associated presence of U.S. forces in

the region give the U.S. a distinct perspective on the region's security challenges, and makes the U.S. an important contributor to regional stability. It is important that the EU remains sensitive to this."¹⁹

The publication of the *Guidelines* is intended to send a reassuring message to the American ally, assuaging Washington's concerns about EU intentions in a part of the world where the EU is not a fully-fledged political actor, but where the U.S. has made a robust commitment to security. In the document, the EU asserts that "Japan and the Republic of Korea are natural political partners in Asia" being as they were "like-minded in many ways."²⁰ The *Guidelines* incorporate U.S. views on the Chinese arms embargo issue and the connections made in Washington (as well as in Tokyo) between China's growing military spending and Asia's strategic balance.

Reminiscent of the diplomatic wrangling around the Chinese arms embargo issue, the document stresses that: "The EU should also, in consultation with all partners, deepen its understanding of the military balance affecting the cross-strait situation; of the technologies and capabilities which, if transferred to the region, could disturb that balance; of the related risks to stability including the risk of miscalculation. Member States will be able to take into account of that assessment as they apply the Code of Conduct in relation to their exports to the region of strategic and military items."²¹

The *Guidelines* are the only attempt to date that the EU has made to come to terms with its growing engagement with Asian countries in fields of security and strategic policy. They stand as recognition that the current role and presence of the EU in Asia goes well beyond trade, development aid and 'soft power initiatives'.

Conclusion

The examination of growing EU-Asia interdependence in economic, monetary and security-political affairs has led to the identification of a number of trends that will have important implications for the future development of bilateral relations. First of all, it is possible to detect growing flows of Asian capital (mainly Chinese nowadays) pouring into Europe, in

¹⁹ "Guidelines on the EU's Foreign and Security Policy in East Asia" (2012), *op.cit.*, p. 8, point 9.

²⁰ *Ibidem*, p. 14, point 20.

²¹ *Ibidem*, p. 17, point 29.

particular for buying euro-denominated assets and investments in both private and publicly-controlled companies.

As demonstrated at the last G-20 summit in Mexico in June 2012, Asian countries are expected to have a significant role in contributing to a solution to the eurozone's sovereign debt crisis. For instance, Japan pledged \$60 billion and China \$43 billion to the special fund set up by the IMF to deal with the euro crisis. These amounts overtake the funds committed by the U.S.

While Asian nations are playing an important part in solving the debt crisis on the Old Continent, the role of the EU in Asia is also changing. Europe is in fact moving beyond its traditional role as a promoter of norms and values in Asia to increasingly exporting arms, dual-use products and advanced technology that, while beneficial for European companies and jobs, can also have the potential to affect the region's strategic balance and security calculations. This is particularly pressing at this moment, when tensions seem to be rising between China and some of its neighbours.

The EU has the potential to become a fully-fledged political actor in Asia if the EU Member States agree to pool together all their material and ideational assets already present in the region, in the pursuit of a coherent and unified strategy. Yet, there are diverging expectations of what the EU could bring to the region. Some countries, such as Japan, South Korea and Australia, for instance, see a security role for the EU only—or mainly—as part of U.S.-led initiatives. These countries continue to look at the EU in security and military affairs through the lenses of NATO. China, on the other hand, would welcome an autonomous role for the EU in Asia, as long as it fits into the Chinese strategy of countering U.S. preponderance. ASEAN countries and, to a certain extent, India, would welcome the EU as an additional external player in the region, as a balance against the U.S. and China.²² There is, therefore, need for both EU and Asian policy makers to increase discussion on their respective roles in each other's region, in order to avoid misunderstanding and miscalculations in the future, and to find mutually beneficial solutions.

²² These perceptions are based on interviews by this author with Asian policy makers and scholars in 2011 and the first part of 2012. On Asian views of the EU see also M.-B. Stumbaum, *How Does Asia View the EU?*, NFG Working Paper No. 1, March 2012.

Marie Söderberg

Promoting Peace-Building through EU–Japanese Cooperation in ODA¹

“Development assistance in the last year has moved from the fringe to the center of national policy in countries such as Japan and the United States.” Sadako Ogata, President of the Japan International Cooperation Agency, December 27, 2010.²

Introduction

Recently, many observers of Japanese foreign policy who touch upon Japanese foreign aid have tended to downplay the importance of official development assistance (ODA).³ According to the calculations of the OECD Development Assistance Committee (DAC),⁴ the volume of

¹ This is a revised version of a paper originally published by the Konrad Adenauer Foundation and the European Japan Advanced Network (EJARN) in 2012 in connection with the project “The Nexus of Security and Development: Opportunities and Prospects for Europe-Japan Cooperation.”

² “JICA President Reviews the Year 2010,” JICA, News from the Field, 27 December 2010, www.jica.go.jp.

³ ODA is defined as grants, technical assistance and loans to countries or territories on the Development Assistance Committee (DAC) list of ODA recipients. It includes both bilateral assistance and assistance from multilateral agencies. It is aid provided by the official sector on concessional terms (i.e., with a grant element of at least 25%), which has the promotion of the economic development and welfare of developing countries as its goal. Grants, loans and credits for military purposes are excluded.

⁴ The DAC members are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, the United Kingdom, the United States and the European Union.

Japanese aid has been decreasing over the years and Japan no longer holds the position of number one donor, as it did during the 1990s. Accordingly, interest in Japanese ODA has waned. With a huge deficit in the Japanese state budget, no radical increases are to be expected. Since the financial crises in 2008, as well as the even more severe financial crises in 2011, the overall picture of ODA in general is quite gloomy, and the picture of Japanese aid may be more so than that of any others. This is especially true in the wake of the triple catastrophe (earthquake, tsunami and radiation leak) that prompted the government to cut ODA expenditure by 10% because money was instead to be redirected to rebuilding the Tohoku area.

So how can Professor Ogata, one of Japan's most prominent and famous decision-makers, claim that development assistance has moved from the fringe to the centre of national policy in Japan? She also argues that the same has happened in countries such as the United States. Do the development policies of the U.S. and Japan follow a common path?

Not necessarily, but there has been a considerable body of research into U.S. influences on Japanese development assistance. Scholars such as Akitoshi Miyashita have proved the importance of *gaiatsu* (pressure from outside, especially American), and how on several occasions this has caused Japan to change policy and actually act against its own interests. A case in point, for example, is the withholding of aid to China after the Tiananmen Square incident, which Japan did despite strong economic and political incentives to continue providing aid. Another example is Japan's abortion of the plan to create a \$100 billion Asian Monetary Fund (AMF) directly after the Asian financial crises of 1997.⁵ A more recent example might be the decision to allocate \$5 billion in ODA to Afghanistan over a five-year period.

Are Japan and the U.S. then the two main providers of ODA, especially for peace-building? Is Japanese ODA in this field to be considered solely in terms of cooperation with the U.S.? It should be stressed that there is another major player here as well—the European Union. Together, the EU member states and the European Commission contribute more than half of the world's total ODA, which makes the EU the world's largest donor. Its member countries' policies may differ greatly, but the EU has still adopted a common EU vision on development policy, the aims of which are to eradicate poverty in a sustainable way and to contribute to the achievement

⁵ Akitoshi Miyashita, *Limits to Power, Asymmetric Dependence and Japanese Foreign Policy*, Lexington Books, 2003, p. 5.

of the UN Millennium Development Goals (MDGs). According to this vision, the EU should promote development based on Europe’s democratic values that Japan and the U.S. also share. Following the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008)⁶ and the Busan New Deal for Engagement in Fragile States (2011),⁷ developing countries should be put in the driving seat and ODA should be harmonised to avoid overlapping and wasteful use of funds.

During the 21st century the whole field of development, and in particular the field of development and security, has become more complex and intertwined. The general trend among DAC members has been to promote peace and security as fundamental pillars of development.⁸ In line with this approach, and in order to address challenges such as peace-building, Japan also revised its ODA charter in 2003. The document clearly states that “the objectives of Japan’s ODA are to contribute to the peace and development of the international community and thereby to help ensure Japan’s own security and prosperity.”⁹

Peace-building and development have gained importance in ODA policy and it seems that there are several players with common interests here—not only Japan and the U.S. but also the EU that should cooperate in this field. In fact there might be more common ground for cooperation between the EU and Japan, since both are civilian powers that do not readily resort to military solutions (although this varies between the EU member countries). The economic outlook in Europe is, to say the least, very gloomy at the moment, and sharp increases in ODA are hardly to be expected, while Japan’s economy has been in decline for the last two decades losing its long-standing position as a top donor country. Taking into account these circumstances, one could ask about the future of Japanese development assistance, its importance for Japan as a policy tool and potential for EU-Japan ODA cooperation.

⁶ For more information see “Paris Declaration” and “Accra Agenda for Action,” www.oecd.org.

⁷ For more information see “A New Deal for Engagement in Fragile States,” www.oecd.org.

⁸ The Nexus of Security and Development is still an under-researched area. Solid knowledge on what kind of development assistance is effective for peace-building or peacekeeping is still scarce.

⁹ “Japan’s Official Development Assistance Charter,” Government of Japan, Ministry of Foreign Affairs, Economic Cooperation Bureau, 29 August 2003, www.mofa.go.jp.

To bring some clarity to above-mentioned questions, the paper starts with a short historical account of Japanese ODA, the many different ways in which it has been used, and the purposes it has fulfilled over the years. There will follow a short account of some characteristics of Japanese ODA. The next part of the paper touches upon trends within the DAC in general, and more specifically the securitisation of aid as well as the widening of the concept of security and the implications for Japanese–EU cooperation. The fourth part presents remarks on Japanese foreign aid in the future, on the direction in which it is heading and the roles it will play as a foreign policy tool. Finally some suggestions for EU-Japanese cooperation are given.

Historical Context

The End of the Second World War

Japan's aid programme is seen as originating in its contribution of \$50,000 to the Colombo Plan in 1954, together with the war reparations agreements with Burma in 1954, the Philippines in 1956, and Indonesia in 1958. The war reparations were made in order to reconstruct what had been damaged during World War II. They were tied to procurement from Japanese companies, and in that way also served the purpose of promoting exports from Japan.¹⁰ In 1957, yen loans from the Export–Import Bank began. The loans went mainly to Asia, and besides meeting certain needs in the developing countries they also served the purpose of establishing Japanese industry in the area. Aid in the 1960s was almost exclusively directed towards Asia, and overwhelmingly served Japan's commercial purposes.

This pattern changed with the oil crisis of 1973, when a huge aid package for the Arab world began, in order to secure the supply of oil. As a consequence of the crisis, a stable supply of natural resources became another ingredient of Japanese aid policy.¹¹ Trade was a prerequisite for obtaining resources and Japan, as a resource-poor country, recognised its interdependence with developing countries. To conduct trade a certain level of infrastructure was needed. This was one of the reasons for the huge

¹⁰ M. Söderberg, "Japanese ODA: What Type, For Whom and Why," in: M. Söderberg (ed.), *The Business of Japanese Foreign Aid: Five Case Studies from Asia*, Routledge, London and New York, 1996, pp. 33–35.

¹¹ D. T. Yasutomo, *The Manner of Giving: Strategic Aid and Japanese Foreign Policy*, Lexington Books, 1986.

amount of Japanese aid money that was spent on infrastructure development in Asia. It was seen as a necessary cost for achieving a secure and peaceful world, as well as for Japan's own economic development. Humanitarian considerations, as a reason for aid, did not emerge with any weight until the late 1970s.¹²

In 1977, the first of a number of plans to double the amount of aid was announced. The wish to be respected in the international community was another motive for those plans, and this eventually turned Japan into a leading donor. It was also a way of improving Japan's image in Asia, where Japanese businessmen had left far from favourable impressions of their country. This was the start of the gift-giving diplomacy (*omiage gaikō*) which Japanese prime ministers touring Asia have since used extensively.

The End of the Cold War

In 1989, Japan became the world's biggest donor of ODA in absolute terms, and remained so until the end of the 1990s. Domestically the Japanese ODA programme was the subject of intense debate. A substantial group of researchers criticised the heavy emphasis on economic infrastructure, which they asserted profited only those people in developing countries who were already well off. On the other hand, these projects were regarded as being of most benefit to Japanese companies. The infrastructure projects were regarded as being detrimental to the environment, and the government was criticised for that approach.¹³ This, combined with the end of the Cold War, and the requests for aid from a number of new countries, led to the formulation of the first ODA Charter, adopted in 1992. The Charter called for environmental considerations and development to be pursued in tandem. It stated that ODA should not be used for military purposes, that attention must be paid to recipients' military expenditure as well as any production of weapons of mass destruction, and that ODA could be used for the promotion of democracy and the introduction of the principles of a market economy. With the Charter came not only a commitment to certain values and goals in Japanese aid-giving, but also a move away from a "request-based" model of aid, with no intervention in internal affairs, to a "consultative" model,

¹² M. Söderberg, "Japanese ODA: What Type...", *op. cit.*, pp. 33–35.

¹³ Sumi Kazuo, *ODA enjō no genjitsu* [ODA: The reality of aid], Iwanami Shinsho, Tokyo, 1989; Murai Yoshinori, *Musekinin enjō taikoku Nihon* [The irresponsible aid great power Japan], JICC, Tokyo, 1989.

according to which the Japanese government started formulating country strategies. In the 1990s, Japanese ODA, at least in the public eye, became more politicised and more environmentally conscious.

9/11 and the Fight Against Terrorism

In 2003 it was time for another revision of the ODA Charter by the Japanese government. The main motivation for the revision was that “the world has changed dramatically since the Charter was first approved, and today there is an urgent need for the international community, including Japan, to address new development challenges such as peace-building.”¹⁴

The securitisation of aid that has occurred since 9/11 and the “war on terror” that followed, in Afghanistan and Pakistan, as well as the invasion of Iraq in an attempt at enforced disarmament of weapons of mass destruction, poses special problems for Japan which, through its so-called “Peace Constitution,” is clearly limited as to what it can do in the field of peacekeeping with its Self-Defence Forces (SDF). To balance that, ODA is being given an enhanced role.

Although Japan signed the UN Millennium Declaration of 2000, which has as its first development goal the eradication of eradicate extreme poverty and hunger,¹⁵ the revised Japanese ODA Charter of 2003 does not note the MDG of poverty reduction up-front. Instead, it states that “the objectives of Japan’s ODA are to contribute to the peace and development of the international community, and thereby help ensure Japan’s own security and prosperity.”¹⁶

The Characteristics of Japanese ODA and Its Distribution

Perhaps the most distinctive feature of Japan’s ODA programme has been its huge size; for roughly a decade from the late 1980s, Japan was the world’s number one aid donor. Yet, although large in absolute terms, at over \$9.6 billion in 2008, in terms of percentage of gross national income (GNI) Japan’s ODA is less impressive. In 2008 it amounted to 0.19% of GNI as compared to the average of 0.31% for the DAC countries (Table 1).

¹⁴ “Japan’s Official Development Assistance Charter,” *op.cit.*, p. i.

¹⁵ “Millenium Development Goals,” UN Department of Public Information, DPI/2650 A/Rev.1, September 2010, www.un.org.

¹⁶ “Japan’s Official Development Assistance Charter,” *op.cit.*, p. i.

Table 1. Comparative Performance of DAC Countries' Aid

	Official development assistance			Grant element of ODA (commitments)	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies	
	2008		2002-03 to 07-08 Average annual % change in real terms	2008	2008				2008	
	USD mln	% of GNI		% (a)	% of ODA (b)	% of GNI (c)	% of ODA (b)	% of GNI (c)	% of ODA	% of GNI
Australia	2 954	0.32	8.3	100.0	10.2	0.03			25.9	0.08
Austria	1 714	0.43	18.0	100.0	28.0	10.9	0.12	0.05	16.3	0.07
Belgium	2 386	0.48	-0.2	99.7	42.3	19.3	0.20	0.09	39.0	0.19
Canada	4 785	0.32	6.4	100.0	29.8		0.10		38.8	0.13
Denmark	2 803	0.82	0.7	100.0	34.8	25.1	0.28	0.21	39.1	0.32
Finland	1 166	0.44	7.7	100.0	40.5	22.4	0.18	0.10	34.3	0.15
France	10 908	0.39	1.7	90.0	40.8	17.6	0.16	0.07	28.0	0.11
Germany	13 981	0.38	8.7	92.1	35.2	15.1	0.13	0.06	25.9	0.10
Greece	703	0.21	3.4	100.0	55.6	21.6	0.12	0.05	20.5	0.04
Ireland	1 328	0.59	13.4	100.0	29.9	18.3	0.18	0.11	50.8	0.30
Italy	4 861	0.22	3.7	99.0	62.2	26.9	0.14	0.06	32.7	0.07
Japan	9 579	0.19	-1.8	85.3	28.8		0.05		26.1	0.05
Luxembourg	415	0.97	7.7	100.0	32.9	24.3	0.32	0.24	39.1	0.38
Netherlands	6 995	0.80	4.1	100.0	25.6	16.6	0.21	0.13	29.0	0.23
New Zealand	348	0.30	8.1	100.0	20.2		0.06		29.1	0.09
Norway	3 963	0.88	3.8	100.0	23.4		0.21		37.8	0.33
Portugal	620	0.27	1.6	79.2	39.8	13.8	0.11	0.04	36.2	0.10
Spain	6 867	0.45	14.6	94.3	30.1	15.0	0.13	0.07	21.3	0.10
Sweden	4 732	0.98	7.4	100.0	33.6	25.8	0.33	0.25	19.2	0.19
Switzerland	2 038	0.42	4.5	100.0	23.9		0.10		24.5	0.10
United Kingdom	11 050	0.43	6.8	100.0	35.9	18.3	0.16	0.08	36.5	0.16
United States	26 842	0.19	7.4	100.0	11.1		0.02		26.2	0.05
Total DAC	121 483	0.31	5.6	96.0	28.8	18.1	0.09	0.06	28.8	0.09
Memo: Average country effort		0.48								

Notes:

a. Excluding debt reorganisation.

b. Including EU institutions.

c. Excluding EU institutions.

d. Data not available.

Source: "Japan. Development Assistance Committee (DAC). Peer Review," OECD, 2010, p. 92.

Another distinctive characteristic of Japanese bilateral ODA, as compared with the ODA of many West European countries, concerns its quality. During the 1980s and 1990s, Japan's ODA consisted largely of bilateral loans. This meant that, although ODA was large in quantitative terms, its quality was rather low, as measured by comparing the value of grants, which do not need to be repaid, with that of loans, which do. Here, the stated justification was moral/ideological—"help those who help themselves"—with the stated rationale that when recipients know they must repay the money they will use it more carefully. There were, however, additional reasons for providing loans rather than grants. Japan did not want

to increase ODA within the national budget while simultaneously cutting domestic expenditure in areas such as education, which would certainly not have been popular with domestic public opinion.

Furthermore, the focus of Japanese aid was Asia. In 1970, Japan gave 98% of its ODA to Asian nations. In 1980 the figure was 70%, and in 2008 it was 58%. The Asian share has decreased with the rise in living standards of some Asian recipient nations, to the extent that, no longer eligible to receive aid, they have “graduated” from the ODA programme.¹⁷ Japan’s ODA to East Asian countries between 1970 and 2004 was approximately \$71.6 billion (in terms of net disbursement), which was 54.4% of total ODA to these nations from DAC members.¹⁸ The number one recipient on a cumulative basis is Indonesia. China has a much shorter history of receiving Japanese aid (since 1979), but was the largest recipient during much of the 1990s. The Chinese share is much smaller today, since Japan stopped loan aid to China at the time of the 2008 Olympics, explaining that the PRC was itself experiencing strong economic growth and had its own resources with which to pursue economic development. The emphasis on Asia during the 1990s gave rise to another feature of Japan’s ODA programme: the largest share went to lower middle-income countries, rather than to the poorest countries (Figure 1).

A final characteristic concerns the nature of Japan’s ODA programme: on what ODA is spent, and through what channels. To a greater extent than aid programmes of other DAC donors, Japan’s ODA programme has been heavily weighted in favour of economic infrastructure: roads, railways, harbours, airports, power plants and other infrastructure necessary for economic development (Figure 2). Referring to Japanese ODA channels, in 2008, the loan aid department of the Japan Bank of International Cooperation (JBIC) was merged with the Japan International Cooperation Agency (JICA), forming what is called the “New JICA,” which is now responsible for the implementation of all three types of Japanese aid – i.e., loans, grants and technical cooperation. The Ministry of Foreign Affairs (MOFA) has the main responsibility for aid policy formulation and coordination. About two-thirds of all aid is now channelled through MOFA and the “New JICA,” which has become the biggest bilateral aid agency in the world.¹⁹ Additionally, MOFA’s International Cooperation Bureau was

¹⁷ “Japan’s Official Development Assistance,” Government of Japan, Ministry of Foreign Affairs, Tokyo, 2008, p. 172, and Figure 2 (OECD, DAC).

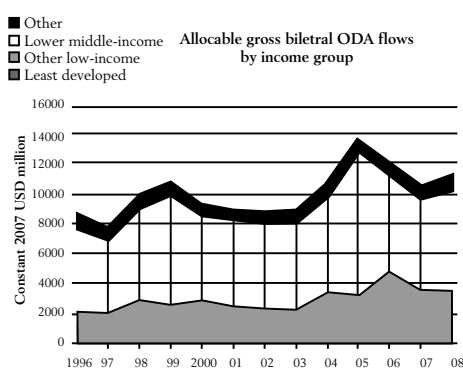
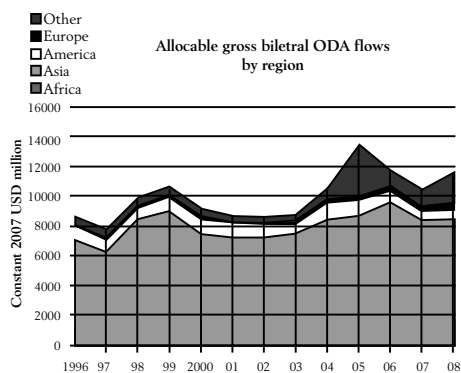
¹⁸ “Japan’s Official Development Assistance” *op.cit.*, pp. 19–20.

¹⁹ “Japan. Development Assistance Committee (DAC). Peer Review,” *op.cit.*, p. 53.

restructured in 2009 and now is divided by region rather than by loans, grants and technical cooperation. This structure gives a more holistic view on aid to each country. Japan is, in this sense, moving away from an instrument-based approach, and towards a country-based approach.

Figure 1. Japanese ODA by Region and Income Group

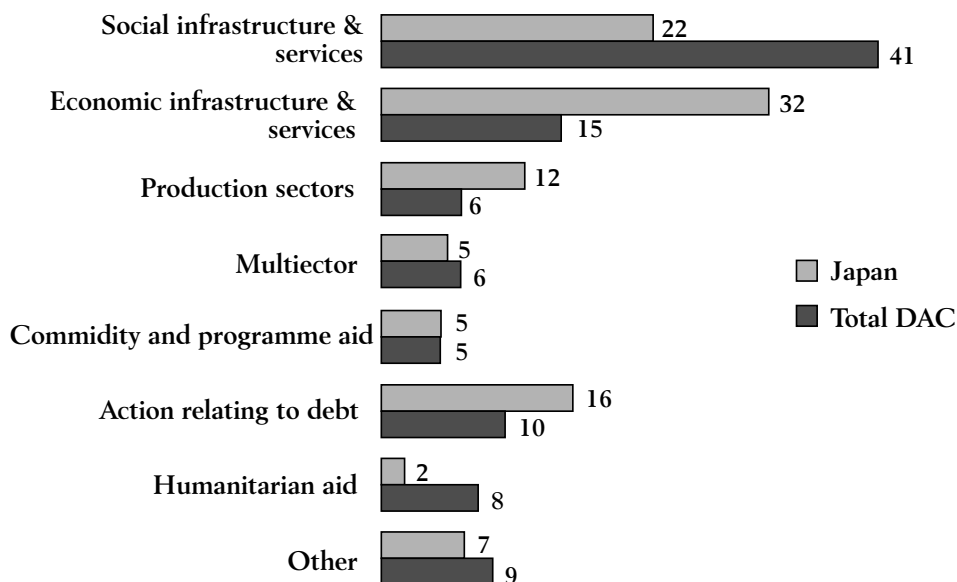
Japan	Constant 2007 USD million					Per cent share					Total DAC 2008%
						Gross disbursements					
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	
Africa	2 113	2 079	3 316	2 274	1 695	20	15	28	22	15	38
Sub-Saharan Africa	1 836	1 806	3 080	1 959	1 225	17	13	26	19	11	32
North Africa	275	269	223	301	368	3	2	2	3	3	4
Asia	6 336	6 622	6 329	6 144	6 798	60	49	54	59	58	30
South and Central Asia	1 861	1 412	1 809	1 648	2 836	18	10	15	16	24	17
Far East	4 452	5 175	4 473	4 471	3 922	42	38	38	43	34	12
America	1 195	1 038	800	645	682	11	8	7	6	6	10
North and Central America	322	621	382	230	250	3	5	3	2	2	4
South America	872	414	411	407	424	8	3	3	4	4	4
Middle East	748	3 380	982	1 041	1 836	7	25	8	10	16	17
Oceania	57	107	97	93	148	1	1	1	1	1	2
Europe	172	255	270	303	461	2	2	2	3	4	4
Total bilateral allocable by region	10 623	13 481	11 793	10 500	11 620	100	100	100	100	100	100
Least developed	1 552	2 068	1 443	2 312	2 104	15	15	12	22	19	35
Other low-income	1 839	1 007	3 232	1 160	1 024	17	7	28	11	9	10
Lower middle-income	6 258	9 590	6 198	5 987	6 923	59	71	53	58	62	46
Upper middle-income	933	760	831	889	1 012	9	6	7	9	9	10
More advanced developing countries	6	5	5	4	–	0	0	0	0	–	–
Total bilateral allocable by income	10 587	13 429	11 710	10 351	11 099	100	100	100	100	100	100
<i>For reference:</i>											
<i>Total bilateral</i>	11 730	14 583	12 932	11 665	13 045	100	100	100	100	100	100
<i>of which Unallocated by region</i>	1 108	1 102	1 138	1 166	1 425	9	8	9	10	11	19
<i>of which Unallocated by income</i>	1 143	1 154	1 222	1 315	1 946	10	8	9	11	15	27



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-region amounts may therefore fall short of the regional total.

Source: “Japan. Development Assistance Committee (DAC). Peer Review,” OECD, 2010, p. 89.

Figure 2. Bilateral Japanese ODA by Major Purposes, 2007–2008



Source: "Japan. Development Assistance Committee (DAC). Peer Review," OECD, 2010, p. 91.

The Nexus of Security and Development

Recently, ODA and aid in general have become more and more entangled with issues of peace and security, not only in Japan but among most of the DAC members. The DAC recommends promoting peace and security as fundamental pillars of development, both at personal and at state level, and pushing for security system reform, implying increased transparency, good governance, the protection of human rights, and institutional change in the developing countries. The traditional concept of security is being redefined to include not only state stability and the security of nations, but also people's security and well-being. There is currently huge pressure to make security the key foreign policy objective of donor countries, which is happening not only in Japan but also on a worldwide basis.

From a development point of view, the importance of security for all people also became evident during the 1990s. Security was seen as a prerequisite for poverty reduction. Again and again it had been proven that years of development could be wiped out quickly, by internal fighting as well

as war with neighbouring states. In the mid-1990s, the Development Assistance Committee formed the DAC Network on Conflict, Peace and Development Cooperation. In 1998, the first guidelines on conflict, peace and development cooperation for donors was published. A second report, entitled “Helping to Prevent Violent Conflict,” was announced in 2001, and security system reform (SSR) was endorsed by ministers and agency heads at a high-level meeting in 2004. The DAC Guidelines specify a number of recommendations for action in order to promote peace and security as fundamental pillars of development at both personal and state levels. The guidelines include supporting country-owned and country-led reform efforts, and making those institutional changes that are necessary for the promotion of people’s security in their daily lives.

It should be noted that conflict prevention, peace-building and peace preservation are complex areas that, to a great extent, are not solely ODA issues, but also incorporate e.g. peacekeeping operations (PKO). There is a mixture of civil and military dimensions to such missions, as with the Japanese reconstruction efforts in Iraq, where the SDF worked side by side with aid workers. ODA and the SDF are thus being launched as “two wheels of the same cart.” This makes things all the more complex in Japan from a legal point of view: Article 9 of the Japanese Constitution, the so-called peace clause, forbids Japan to make military contributions towards the resolution of conflicts abroad.²⁰

The restriction on the use of Japanese forces to resolve conflicts abroad makes it clear that what is happening in the field of peace-building should also be viewed in the broader perspective of the U.S.–Japanese security alliance. This is nothing new, but has been the case since the end of the 1970s, when Japan announced a number of plans which doubled the level of ODA. This was seen as one way for Japan to fulfil its obligation to international society,²¹ and was partly explained in terms of “burden-sharing” (*yakuwari buntan*), according to which Japan should take greater responsibility in the field of aid in order to compensate for the fact that its constitution bars it from sending troops abroad, the cost of which had,

²⁰ M. Söderberg, “Foreign Aid as a Tool for Peace Building: Is the Goal Security or Poverty Reduction?” in: M. Söderberg, P. A. Nelson (eds.), *Japan’s Politics and Economy*, Routledge, London and New York, 2010, pp. 99–116.

²¹ M. Söderberg (ed.), *The Business of Japanese Foreign Aid: Five Case Studies from Asia*, Routledge, London and New York, 1996.

therefore, to be borne by others, primarily the U.S., under whose global security umbrella Japan is placed.²²

The announcement in November 2009 that Japan would provide ODA to the amount of \$5 billion to Afghanistan over the coming five years should clearly be viewed both in the context of the U.S.–Japanese security alliance, and in the context of security system reform within the DAC. There are large numbers of European troops stationed in Afghanistan, and Japanese aid will, hopefully, also assist their efforts to create peace and security in the area.

Article 9 of the Japanese Constitution actually marked Japan as one of the first countries to develop a concept of security broader than on a strictly military basis. Already in 1979 Japan's Prime Minister, Masayoshi Ohira, had appointed a study group that came to launch the concept of comprehensive security which, besides military security, was aimed at the enhancement of all forms of security, encompassing natural resources, food and economic security.

In a speech in London in 1988, Prime Minister Noboru Takeshita explained Japan's international cooperation initiatives, taking into account that ODA was the most valued aspect of Japan's international contribution, and he would continue to improve both its quality and its quantity²³:

“As you may know, Japan is firmly committed to the furtherance of world peace, and its Constitution does not permit it to extend any military cooperation. This does not mean, however, that Japan should stand idly by with regard to international peace. I believe that Japan, from a political and moral viewpoint, should extend cooperation to the utmost of its ability. I will pursue ‘Cooperation for Peace’ as a new approach toward enhancing Japan's contributions to the maintenance and reinforcement of international peace. This will include positive participation in diplomatic efforts, the dispatch of necessary

²² See: D. T. Yasutomo, “The Manner of Giving...,” *op. cit.*; Masamichi Hanabusa, “A Japanese Perspective on Aid and Development” in: Shafiqul Islam (ed.), *Yen for Development: Japanese Foreign Aid and the Politics of Burden-Sharing*, Council on Foreign Relations Press, New York, 1991, pp. 88–104.

²³ “Opening a New Era in Japanese-European Relations,” Statement by Prime Minister Takeshita on the Occasion of the Luncheon Given by the Rt. Hon. the Lord Mayor and the Corporation of London at the Mansion House, 4 May 1988, www.mofa.go.jp.

personnel and the provision of financial cooperation, aiming at the resolution of regional conflicts.”²⁴

In the present ODA Charter (adopted in 2003), Japan’s policy regarding peace-building with ODA is “to support the response to humanitarian emergencies and to provide counter-terrorism capacity-building assistance, as well as address projects that contribute to consolidation of peace and post-conflict nation building, including disarmament, demobilisation and reintegration (DDR) of former soldiers, the collection of small arms, de-mining and related activities and improving governance.”²⁵

To work effectively on SSR, “whole-government” approaches are needed in both donor and developing countries. This implies that a range of policy and funding instruments such as development cooperation, diplomacy, trade, finance and investment, as well as defence, should be coordinated in order to increase their effectiveness. Japan does not have a strategy and policy framework guiding its engagement in fragile situations, and it has not yet explicitly addressed the challenge of taking a whole-government approach in such contexts.

Japanese Foreign Aid: Where Is It Heading?

Japan has endorsed both the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. A new Medium-Term Policy on Official Development Assistance should have been announced in 2010,²⁶ but has been delayed for several reasons. One is the general turmoil in Japanese politics, which makes it difficult for any decisions to be made. Severe restrictions on the Japanese government’s general account budget have also contributed to the delay. And, there is a third reason—that ODA has become increasingly politicised and that there are nowadays a number of stakeholders pushing in different directions.

Let us first take a look at the budget itself. DAC statistics show that Japan has fallen from providing nearly 20% of all DAC aid in 1999/2000, to providing only 7.7% in 2007/08. The overall ODA budget from the general

²⁴ *Ibidem*.

²⁵ “Japan’s Official Development Assistance White Paper 2007,” Government of Japan, Ministry of Foreign Affairs, Urban Connections, Tokyo, 2007, pp. 4–5.

²⁶ The present one does not make references to the aid effectiveness agenda or policy coherence for development.

account has shrunk in nominal terms by 42.5% since its peak in 1997. How, then, can anyone claim that Japanese development assistance is moving from the fringe to the centre of Japanese national policy?

The figures above are partly a result of the DAC method of calculating ODA. This is the method that put Japanese ODA in a very favourable light during the 1980 and 1990s, but which today puts Japan in an unfavourable position because it has to deduct the repayment of all the ODA loans made during that period. The figures do not give the full picture as MOFA, and in any case, the general account budget is also using the supplementary budget on top of that. Although there was a cut of 40% of the general account budget, there was a large increase in the gross operational (project ODA) budget, of 5.8% in 2008 and of 14.1% in 2009. In December 2009 the Japanese government announced another 7.9% cut for 2010, but in fact the overall project ODA budget increased by 2% in gross terms.²⁷ With the high value of the Japanese yen, the budget can be expected to increase even more in dollar terms. Japan's 2011 ODA budget stood at \$7.2 billion, less than 0.18% of GDP. In April, however, the cabinet agreed to a cut of almost 10%—\$600 million—in the budget for 2011 due to the heavy cost of reconstruction packages for the Tohoku area.²⁸ Counted in U.S. dollar terms and as a percentage of gross disbursements, this is likely to be a minor reduction. The figures in table 2 show that the gross value of Japanese ODA is still substantial.

One suggestion from the discussion group about Japanese ODA (*Nihon no ODA o kangaeru kai*) at the National Graduate Institute for Policy Studies (GRIPS), in connection with their studies for the new Mid-term Defence Programme outline, is that Japan should actually move away from the ODA concept and instead use the term development cooperation, which would also incorporate civil and NGO activities and not only government-to-government aid.

What can be included in the concept of ODA is also being debated among other DAC members. Gunilla Carlsson, the Swedish Minister for International Development Cooperation has suggested that money for the African Union's activities promoting peace should be counted as ODA, as should some of the Swedish activities in Afghanistan. Sweden has also

²⁷ "Japan. Development Assistance Committee (DAC)...," *op.cit.*, p. 44.

²⁸ Suvendrini Kakuchi, "Japan: Aid Cut to Hit Health Campaigns," *Global Issue*, 13 June 2011, www.globalissue.org.

promoted the idea that some military expenses, such as mine clearance and the education of soldiers in human rights should be included in the ODA budget.²⁹

Table 2. Japanese Gross Bilateral ODA, 2004–08

Japan	Constant 2007 USD million				
	2004	2005	2006	2007	2008
Gross Bilateral ODA	11 730	14 583	12 932	11 665	13 045
<i>Grants</i>	6 351	8 425	7 501	5 983	1 171
Project and programme aid	916	881	1 086	1 101	1 731
Technical co-operation	1 705	1 701	1 811	1 813	232
Developmental food aid	43	54	83	135	228
Humanitarian aid	585	484	179	95	2 486
Action relating to debt	2 149	4 386	3 475	1 941	835
Administrative costs	597	645	655	669	207
Other grants	356	275	212	229	
<i>Non-grants bilateral ODA</i>	5 380	6 158	5 431	5 683	6 154
New development lending	5 2836	5 293	5 219	5 657	6 151
Debt rescheduling	97	866	212	25	3
Acquisition of equity and other	–	–	–	–	–
Gross Multilateral ODA	2 677	2 517	3 798	1 901	2 446
UN agencies	1 122	999	576	567	516
EU institutions	–	–	–	–	–
World Bank group	922	824	2 525	173	1 112
Regional development banks (a)	401	447	445	460	515
Other multilateral	232	247	252	702	303
Total gross ODA	14 407	17 100	16 730	13 566	15 491
Repayments and debt cancellation	–6 460	–5 046	–5 812	–5 887	–6 989
Total net ODA	7 947	12 055	10 918	7 679	8 502
For reference:					
<i>Associated financing (b)</i>	–	–	–	–	–
<i>Net debt relief</i>	215	4 104	3 100	1 579	1 515
<i>Imputed student cost</i>	–	–	–	–	–
<i>Refuges in donor countries</i>	–	–	–	2	0

a. Excluding EBRD

Source: “Japan. Development Assistance Committee (DAC). Peer Review,” OECD, 2010, p. 88.

Another factor of importance is that private and other official financial flows are becoming much more important in the relationship between the OECD countries and other states in a more globalised world. These kinds of support are dominant, and the portion of aid is steadily decreasing. What is more, development assistance from non-DAC and non-OECD members is growing. Discussions on “enhanced engagement” with the BRIC nations (Brazil, Russia, China and India), as well as with Mexico and South Africa, have been initiated. At the Busan meeting on development held in 2011, the

²⁹ O. Lönnaeus, N. Orrenius, “Bantat bistånd splittrar regeringen,” *Sydsvenskan*, 10 March 2011, www.sydsvenskan.se.

participating countries declared that further cooperation was needed between the old DAC countries and various new donors.³⁰

When it comes to East Asia, South Korea has now joined the DAC. The People's Republic of China, while it is still a recipient of foreign aid, has now also become a major donor. Both South Korea's and China's development cooperation policies are mediated by their own experience of foreign aid. Japan has been their main donor and they are heavily influenced by Japanese policy, whereby ODA has always been seen as part of the wider concept of economic cooperation (*keizai kyōryoku*),³¹ which besides aid also encompasses two other components – other official flows (OOF), and private investments. Economic cooperation encompasses almost all activities considered helpful to economic development, without distinguishing between official and private, commercial and non-commercial funds. This conceptualisation can be traced to the concept of “mutually beneficial economic assistance.”³² Although Japan is now facing competition from Chinese aid, there is no doubt that it feels quite comfortable with some parts of Chinese aid and that this is an area in which we will see more cooperation in the future. As Sadako Ogata puts it: “We have opened up some windows of cooperation with China.”³³

The next modification in the field of development assistance is that, besides new, non-traditional country donors, we have also a number of new private foundations that make contributions of considerable size, such as those set up by Bill Gates or Warren Buffett. Their budgets are as large as some of the development assistance budgets of the DAC member states. In general, economic flows have been changing in a world that is becoming more and more globalised. Overall, commercial flows and remittances have risen faster than aid.

³⁰ “Busan Partnership for Effective Development Cooperation,” 1 December 2011, www.aideffectiveness.org

³¹ M. Söderberg, “Challenges or Complements for the West: Is There an Asian Model of Aid Emerging?” in: J. S. Sörensen (ed.), *Challenging the Aid Paradigm: Western Currents and Asian Alternatives*, Palgrave Macmillan, Houndsmills, Basingstoke, Hampshire, and New York, 2010, pp. 107–137.

³² Alf Morten Jerve, Yasutami Shimomura and Annette Skovsted Hansen (eds.), *Aid Relationships in Asia: Exploring Ownership in Japanese and Nordic Aid*, Palgrave Macmillan, Basingstoke and New York, 2008, p. 15.

³³ “JICA President Reviews the Year 2010,” *op. cit.*

In Japan, as in many other countries (including Sweden), there is also a push for more public-private cooperation in the field of aid. The Japanese government is, for example, trying to promote further this kind of collaboration in Africa. At the fourth Tokyo International Conference on African Development (TICAD IV), held in Yokohama in 2008, the Japanese government announced that it aimed to double Japanese FDI in Africa by 2012. One way of doing this was the establishment of a \$2.5 billion Facility for African Investment, and dispatching joint public–private missions.³⁴

Policy coherence for development (PCD) has generally been considered weak in Japan. The exception here is the Development Initiative for Trade (DIT). For the period 2009–11, Japan committed \$12 billion to help partner countries build their capacity to expand trade, and there is also a Policy Framework for Investment (PFI). Japan generally scores higher than any other country in the so-called aid for trade index. This is in strong contrast to the nexus of aid and security.

While Japan identifies peace-building as a priority in its ODA Charter and Mid-Term Policy, its gross bilateral disbursements to peace, conflict and security have remained low (less than 1–2% of total ODA in the twelve years 1997–2008), and figures for humanitarian assistance represent an equally small portion.³⁵ To a certain extent this is also a matter of how aid is classified. Iraq has for many years been the top recipient of Japanese ODA, although a large part of the reconstruction work there is classified as economic infrastructure. The recent commitments of \$5 billion to Afghanistan must also be considered as efforts to promote peace-building, although they might not all be classified as such.

Can we say that Sadako Ogata was wrong in her statement that development assistance has moved from the fringe to the centre of national policy? No, the securitisation of aid means that it takes centre stage. With the political turmoil and the phenomenon of “revolving doors” for Japanese prime ministers, as well as the firm focus on rebuilding the country after the triple catastrophe, the process of constitutional change has slowed down and Article 9 is likely to remain in force for the time being. Thus, Japan will not be able to send its SDF abroad, at least not on combat missions. In this

³⁴ “Japan. Development Assistance Committee (DAC)...,” *op. cit.*, p. 31. Whether the plan to double ODA will be successful or not will of course depend on how attractive private companies find it.

³⁵ *Ibidem*, p. 47.

situation, Japan does not have all that many tools to hand when it comes to peace-building. The wider concept of security, as well as the securitisation of development assistance, may have enhanced the power of development assistance as a foreign policy tool.

It is likely that we will see more of this, and more of the SDF working in parallel with aid organisations in fragile states. One example is South Sudan, where the Japanese engineering troops have been assisting with road-building and other infrastructure under the framework of the UN mission since the beginning of 2012. This opens the door for further cooperation between the EU and Japan in the field of development or the nexus of development and security. The Japanese engineering troops are going to assist aid projects from other countries as well.

From a normative perspective, the EU and Japan share a number of fundamental values, such as democracy, human rights, firm legal institutions, sustainable development, food security and human security in general. It is in the interests of both the EU and Japan that these normative values are promoted on a global level.

What Can the EU and Japan Do Together?

It seems that there are potential areas of Japan-EU ODA cooperation. A significant example could be the New Deal for Engagement in Fragile States, a declaration signed both by Japan and the EU at the international conference on aid effectiveness in Busan, South Korea, in November 2011. In this deal the countries agreed to use the Peace-building and State-building Goals (PSGs)³⁶ as an important foundation for progress and by September 2012 a set of indicators for these goals should have been developed by fragile states and their international partners so that progress can be tracked. Signatories decided also to focus on an inclusive, country-led and country-owned transition out of fragility, based on assessment by the G7+ with the support of international partners. There should be a country-led single vision and a single plan and a compact to implement it. Additionally, the

³⁶ *Ibidem*. These goals include Political Inclusivity (A State for All), Citizen Security (Safety for All), Justice (Equity for All), Economic Foundations (Jobs for All—so all citizens have a role in state building) and Revenue and Resource Management (Services for All).

other goal is to build mutual trust, by providing aid and managing resources more effectively and aligning these resources on a result-oriented basis³⁷.

The New Deal has been pushed by a number of fragile states. One of them is South Sudan, where the government wants to be one of the countries to pioneer it. The Ministry of Finance and Economic Planning has announced a Development Plan for 2011–2013, and a Donor Book, to give an overview of the aid landscape. With these documents the government wants to be able to lead its own transition out of fragility. The Aid Information Management System (AIMS) is central here, and makes it possible to measure progress and see how donors align with government priorities. The Donor Book gives insight into where donors' work overlaps, and to what extent they are complying with the aid strategy partnership principles. The government of South Sudan clearly shows its own priorities, and wants all outside donors to channel their assistance through the government system, indicating that general budget support is the preferred aid modality. No partner country seems willing to comply with this principle.

For aid effectiveness, however, it is clear that further donor cooperation is needed. The Donor Book has a number of suggestions for the pooling of resources in various sectors, which should be taken into consideration. It points out that, on a bilateral level, the EU spent substantial amounts on social and humanitarian affairs in 2010, as well as on natural resources, an area in which the EU continues to be the lead donor in 2012. In other sectors such as accountability, infrastructure and rule of law, the contribution was less than \$1 million, and the government of South Sudan suggests that these funds should be redirected to other sectors or channeled through a pooled fund mechanism or "silent partnership." The Donor Book also recommended that Japan contribute to pooled funds such as BSF (education and health), HPF (Health) and CHF (social and humanitarian affairs). Where pooled funds were not available, for example, in the natural resource sector, Japan should consider operating in a silent partnership. South Sudan is just one recent example. The problem is the same in many other countries, especially the fragile ones.

The EU and Japan both signed the New Deal in Busan, and now need to live up to this commitment. If there is to be a "country-led and country-owned transition out of fragility," why do they not follow the suggestions of the South Sudanese government? Japan could, for example,

³⁷ See: "New Deal for Engagement in Fragile States," www.oecd.org.

work with the EU in the natural resources sector, and the EU could join Japan in its focus on infrastructure. They have both promised to “build mutual trust by providing aid and managing resources more effectively and aligning these resources for results,” so why do they not do this? Is there a lack of trust between the EU and Japan? Or is raising the flag more important than achieving results?

It seems that the good example is Australian-EU cooperation in South Sudan. When it comes to Australia, the EU has a fully-fledged transfer and delegation agreement. This means that Australia will give support to the EU rural development programmes in South Sudan, and the EU will give support to Australian rural development programmes in the Pacific.³⁸ The two are considered to have an equal type of assurance level when it comes to processes, transparency, accountability to taxpayers etc. This would probably be equally true for Japan and the EU, so why do they not establish a transfer and delegation agreement? Some concrete examples of possible cooperation in South Sudan would be the above-mentioned Japanese Self Defence forces, which could also assist the EU with any projects in the Juba area, where road-building or similar infrastructure support is needed in connection with other development projects.

It could not be excluded that Japanese ODA officials might have some interest in supporting EU projects in other areas. The EU is putting up a quick-impact peace dividend project with a basket fund to support cross-border dialogue, asking other donors to join as well.³⁹ Here, Japan would be most welcome if it wants to spread its support outside the capital. Looking at other geographical areas, e.g. Mindanao island in the Philippines would be a good spot for cooperation. The EU is quite engaged on a policy level, where as Japan has a number of people working on the ground.

³⁸ Interview with Ambra Longatti, Advisor Governance, Rule of Law, Basic Services, Delegation of the European Union to the Republic of South Sudan, 27 January 2012.

³⁹ Interview with Edoardo Manfredini, Good Governance Coordinator, Governance, Economy and Social Section, Delegation of the European Union to the Republic of Sudan, Juba, 30 January 2012.

Tomasz Łukaszuk, Tomasz Jamróz

Harnessing Poland's Potential to Strengthen EU-Japanese Relations

East Asia is undoubtedly a region in which the EU has vital interests. These refer not only to narrowly understood economic benefits from trade and investments conducted by European businesses and resulting from the growing number of FTAs, but also to the so-called “peace dividend” which brings profits to all stakeholders, both European and Asian. It might be argued that the liberal democratic theory, according to which democracies are less likely to wage wars against each other, doesn't always hold true. However, there is no denying that the development and consolidation of democracy in the world is expected to mitigate tensions which accompany almost any realignment of the balance of power among world leaders. Hence, one of the paramount tenets on which the EU was based is the principle of democracy, whereas its promotion belongs to major provisions of common foreign and security policy.

Thus, Japan – the longest established free market democracy in the region – is a natural, like-minded political partner for the EU. Tokyo's position as a major provider of development assistance, as well as its engagement in peace-building operations in almost the same areas as the EU, additionally strengthen the perception that both sides should become strategic allies. So why does this huge potential still remain relatively untapped? If we look at the level of cooperation in the field of foreign and security policy, it turns out that, despite ambitious targets laid down in the Action Plan in 2001¹ there was fairly little concrete implementation concerning initiatives envisaged a decade ago. Does the EU really remain an

¹ The Action Plan is a non-binding framework agreement on which the EU's relationship with Japan was founded. It addresses four major objectives: 1) promoting

attractive partner for Japan? How can EU-Japanese relations be invigorated? In this short article, we will try to address these issues briefly, and to indicate one crucial area in which Poland's potential could be utilised for the sake of a new and stable global order.

Admittedly, one cannot discount the counter-piracy cooperation between Japan's Maritime Self Defence Forces and the EU Naval Force off the coast of Somalia, or Japan's involvement in EUPOL's capacity-building activities for the Afghan police in the Ghor province. In the past few years we have also witnessed an array of joint declarations and projects concerning various spheres of international relations, such as co-sponsorship of the International Criminal Court and various UN resolutions, as well as collaboration in the field of non-proliferation and disarmament. However, if we take into account the significance of both the EU and Japan within the architecture of global security, we should conclude that cooperation between them has so far been concentrated on, basically, signing a wide range of protocols and declarations² to the detriment of more concrete actions.

But is the lack of focus the only reason behind this relatively low number of joint activities? Conceivably, pursuing fewer big-ticket operations could have attracted more attention to EU-Japanese cooperation, rather than launching a large number of initiatives, the outcomes of which were ultimately barely visible. Nevertheless, in order to get the full picture it seems necessary to concede that both sides have failed to realise fully just how their long-term interests really converge. And if we were to raise the main factors which prevented both the EU and Japan from doing so, the most obvious answer seems to be the shifting balance of power in the world with a relative decline of the West *vis-à-vis* BRIC and, most recently, MIST

peace and security; 2) strengthening the economic and trade partnership; 3) coping with global and societal challenges; 4) bringing together people and cultures. The document expired in 2011, hence the need to negotiate a new agreement governing EU-Japan relations. At present, preparations for launching the negotiations are under way (so-called scoping exercise).

² For example, documents supporting international initiatives on nuclear disarmament and proliferation of weapons of mass destruction, or adoption of the Declaration on Disarmament and Non-proliferation in 2004, with the aim of supporting the United Nations Action Plan on small arms and light weapons, yielded few tangible results in the form of joint projects.

countries.³ Thus, the very cause which should have brought these two democratic and liberal-oriented market economies closer has, paradoxically, driven them apart by drawing their whole attention to shaping relations with the rising powers, rather than seeking ways to close ranks with the aim of making the new global players shoulder more responsibilities.

This leads us to a very important distinction between short-term benefits and long-term interests, a distinction which must be drawn if the nature of this paradox is to be understood appropriately. For the past few years the EU and Japan have focused on harnessing the steam coming off the new engines that are pushing forward the global economy, while at the same time neglecting potential threats⁴ arising from the lack of coordinated efforts aimed at reshaping the global architecture. Close cooperation is an indispensable tool for attaining this goal. However, in order to render it possible, all of us will probably have to sacrifice some of the short-term benefits resulting from tighter economic cooperation with the rising powers for the sake of installing a new world order, which would take into account all the main challenges now facing global security. This should sit at the top of the list of our long-term interests, followed by the more resolute promotion of human rights, the rule of law and other “democratic values” lying at the core of our societies.

One might wonder how promoting democracy is connected with the process of persuading emerging powers to act more responsibly on the international stage. First, it is easier to convince countries with a democratic system of government to abide by the already established and more or less functioning rules which frequently stem from democratic values. Staunch supporters of non-interference in “internal affairs” very often hail from the authoritarian camp. But, in order to create a global code of conduct in any sphere, we must be ready to compromise. Even if we are looking for the least common denominator, it remains a denominator i.e., something has to be

³ Both acronyms were coined by Jim O'Neill of Goldman Sachs, and denote big ascending powers of Brazil, Russia, India and China (BRIC), as well as a group of new emerging economies—Mexico, Indonesia, South Korea and Turkey (MIST).

⁴ These threats primarily include the scale and lack of transparency of Chinese military build-up, rising tensions over disputed territories in the South and East China Sea, squabbles between Islamabad and New Delhi in the context of the deteriorating security situation in Pakistan, and uncertainty over possible developments in Cross-Strait relations.

given up in order to accommodate other things. Democracies are simply better prepared for that.

Secondly, even if certain rules or mechanisms are not functioning properly, democracies are more likely to overhaul them smoothly, without causing too much turbulence. By and large, authoritarian rulers are not used to open discussions, and this could substantially hinder the effectiveness of the whole process. Reform of the UN Security Council could serve as a good example in this regard.

We are not claiming that it is impossible to establish a balanced world order with some big players still cherishing an authoritarian system of governance. However, because of the abovementioned factors, the more democracies we have, the greater the chances of creating a stable, global security architecture. In short, since democracies are more predictable, transparent and willing to compromise, it is easier for them to tackle challenges of the new world order without stirring unrest and causing major friction. This is the very essence of the previously expressed statement, that the development and consolidation of democracy should mitigate tensions resulting from the current realignment of power.

In light of this, it seems obvious that strengthening EU-Japanese cooperation in this area ought to be at the top of our agenda. As has already been mentioned, we all agree with this on paper, but when it comes to concrete initiatives, we still don't have much to boast about. Therefore, we need several joint flagship projects, which would show clearly that the consolidation of democracy is actually taking place. There are plenty of potential candidates where such an endeavour could be implemented. Countries encompassed by the Eastern Partnership initiative certainly belong to them. Here, Polish expertise might come in handy.

After the collapse of the communism, defending human rights and democracy became the pivotal element of Polish foreign policy. Owing to the successful outcome of the transition process in Poland, we are well-prepared to serve as advisers to those who are willing to pursue the path of democratic change. As the Polish foreign minister Radosław Sikorski's put it, "We don't have aircraft carriers or the most modern military. We are not a major financial power. But in this area, we have added-value for the West as a whole."

Of course, Polish activities in this regard have not been driven solely by altruism. Rather, they were ignited by the conviction that living in a democratic environment is simply safer. In fact, the promotion of democracy by Poland

was not only confined to the country's immediate vicinity. Everyone seems to remember former president Kwaśniewski's support for Ukraine's Orange Revolution, but not so many would recall the activity of the Warsaw-based Community of Democracies⁵, an organisation open to all democratic countries in the world. The point is that there is no hidden agenda behind Poland's promotion of democracy. The country stands ready to engage substantially, in regions in which it has no vested interests except for one—creating a stable international community. Every Polish soldier in Afghanistan is the irrefutable proof of this.

This readiness, coupled with Polish expertise stemming from the transition period, has become Poland's contribution to the EU's common foreign policy ever since it joined the organisation in 2004. Now, it is high time those efforts were coordinated with non-EU countries as well. As mentioned at the beginning of this paper, Japan is a natural partner in this regard. Therefore, we would welcome Tokyo's engagement not only in the Eastern Partnership countries as such, but in the projects designed by the EU under the umbrella of this initiative as well. The Information and Coordination Group (formerly the Group of Friends)⁶ was designed with a view to explore and implement such possibilities, and we are looking forward to Japan's active participation in this forum.

Perhaps further joint actions aiming at promoting democratic values in other parts of the world, e.g. East and South-East Asia or North Africa might follow in the near future. After the Arab Spring we have witnessed the green shoots of democracy in Myanmar, a country in which both Japan and the EU could join efforts aimed at bolstering the reform process. On the one hand, some member states have extensive expertise stemming either from their vast experience in propping up systemic reforms abroad or – like Poland and a few other Eastern European members of the EU—from the transition

⁵ The Community of Democracies is an intergovernmental organisation grouping democratic countries from all over the world. It was founded in 2000 in Warsaw. Its goals include promoting democratic rules and strengthening democratic institutions around the globe.

⁶ Poland's idea to set up a "group of friends of the Eastern Partnership" with the aim of coordinating activities between the EU and interested third-party countries was adopted in May 2010 in Sopot. In September 2010, the first meeting of the group (renamed to Information and Coordination Group) was held. It was attended by senior officials from Canada, Japan, Norway, Russia, Switzerland, Turkey and the US. The second and most recent meeting was organised in June 2011. So far, the group's activity has been limited mostly to information-sharing.

process after the fall of the communism. On the other, Japan has acquired thorough knowledge, through implementing various development projects in the Asia-Pacific region. With the centre of gravity of the world affairs shifting towards Asia, closer cooperation between Japan and the EU in disseminating democratic values in this particular region seems more than welcome. This would send a clear message that the democratic community is consolidating and ready to put aside the divisions formed by short-term economic interests.

Zbigniew Brzeziński, a Polish-American geo-strategist who served as U.S. National Security Advisor to President Carter, compared Eurasia to an oval-shaped chessboard with key players located in the west, east, centre and south. With the shifting balance of power between the players, it becomes ever more crucial to maintain an equilibrium, however difficult, in which no-one attempts to grab a bigger share of the board in pursuit of one's own geo-strategic interests to the detriment of others, as this could stoke fears and create instability. By promoting democracy, we promote transparent dialogue and disperse anxiety about the future of the chessboard. Poland, the EU and Japan seem predestined to contribute to this endeavour.

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