

# **The EU and Japan: a partnership in the making**

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### **About the author**

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## Foreword

*By Antonio Missiroli*

The recent visit to Brussels by Japanese Prime Minister Shinzo Abe – during which he met both NATO Secretary General Jaap de Hoop Scheffer and European Commission President José Manuel Barroso – contributed to highlighting the priorities of Tokyo's foreign policy at this particular juncture: enhanced cooperation with NATO (as part and parcel of its global strategic partnership with the United States) and closer coordination with the EU on matters of common interest, including peace-building.

While Japan's alliance with Washington is certainly nothing new, its willingness to cooperate directly with NATO – on post-conflict stabilisation (Afghanistan) as well as non-proliferation (North Korea) – is a much more recent development, prompted by a broader reassessment of its vulnerability, position in the world, and potential partners and interlocutors.

Inside NATO, too, a number of officials recently floated the idea of a "global partnership" which would include such countries as Australia, New Zealand, South Korea and, notably, Japan – regardless of their geographical distance from the traditional Euro-Atlantic area.

For its part, Tokyo's search for closer cooperation with the EU builds on an already existing approach (especially in the Balkans) but aims to extend this to new geographical and functional areas, also taking into account the increasing role being played in world affairs by the Union in its own right.

This Issue Paper by Associate Policy Analyst Axel Berkofsky, planned in the framework of the EPC's Work Programme on 'EU and Asia', analyses in depth and detail the old and new motives that have driven such developments, and in particular the evolution of Japan's foreign policy in the post-war era and its relations with the EU.

It illustrates the parallel 'coming of age' of both Japan and the Union, especially after the end of the Cold War; their shared commitment to multilateralism and the United Nations' system; their broadly converging interests but also their residual differences; and the tensions and dilemmas raised by Washington's conduct on and in Iraq, heightened by a common dependency on Middle East oil for fuelling their advanced economies.

In truth, however, Japan has long been compared with (West) Germany rather than Europe as a whole. The two countries' post-war economic reconstruction and development followed strikingly similar paths – although the way in which the Germans dealt with their historical past was much more thorough in comparison with the persisting evasiveness of Japanese officialdom as regards, for example, wartime responsibility.

In the early 1970s, American political scientist Richard Rosencrance conceptualised the two countries' experience as 'neo-mercantilist' powers ("trading States") in an increasingly interdependent world. German Chancellor Willy Brandt's famous definition of (West) Germany as an economic giant and a political dwarf could have equally applied to Japan. And, later on, German political scientist Hanns Maull applied the notion of "civilian power" to both.

After the end of the Cold War, Japan and Germany refrained from engaging directly in the (first) Gulf War against Saddam Hussein and resorted, instead, to what was then called 'cheque-book diplomacy' by generously funding the US-led operation 'Desert Storm'. Immediately after that, both Tokyo and Bonn made their first timid steps towards a more proactive foreign and security policy by participating in the UN mission in Cambodia (1992-93), and Japan went as far as to send a few hundred peacekeepers to Zaire (1994) to cooperate in the UN-led humanitarian relief effort following the Rwanda genocide.

Finally, in the mid-1990s, both Japan and (a united) Germany launched a campaign for a permanent seat for themselves in a future enlarged UN Security Council (UNSC), pointing, among other things, to the

share and amount of their payments into the overall budget of the organisation (Tokyo being the second and Berlin the third largest contributor).

While Japan's ambitions have been pursued steadily and consistently over the past decade, obtaining qualified support from Washington but harsh rejection from Beijing, Germany has experienced ups and downs, due to a combination of domestic factors and external opposition – especially among some fellow Europeans.

Japan is unlikely to abandon those ambitions, although its chances of success may also ultimately depend on addressing those issues from the past – including the refusal to pay war reparations to China – that keep haunting diplomatic relations in East Asia. Prime Minister Abe's prompt visit to Beijing (and Seoul) after taking office a few months ago appears to indicate Tokyo's increased awareness of the problem.

Germany's role as a point of comparison for Japan has been increasingly taken over by the European Union at large. For one thing, the D-Mark has been replaced by the euro in monetary and financial matters. Moreover, the EU, post-Maastricht, came to be considered (by Rosencrance and Maull, among others) as the true incarnation of a "civilian power" in its own right, at least in this part of the world. And the enlarged Union's trading 'bloc' has now supplanted the old *Modell Deutschland*.

In foreign and security policy matters, such 'Europeanisation' of Germany *vis-à-vis* Japan has been slower and harder, as Berlin's autonomous bid for a UNSC permanent seat also shows. But it is a fact that, in spite (or maybe as a consequence) of the intra-European divisions over the Iraq War, 'Europe' as such has now become an increasingly autonomous, visible and active player on the international scene.

Tokyo has taken note of this, albeit after some hesitation, and Axel Berkofsky rightly emphasises the growing importance of EU-Japan cooperation in this area: a cooperation that has gone largely unnoticed so far, but which is already reasonably significant and looks set to expand further in the months and years to come.

The current German Presidency of the Union will represent a first important stage in this process.

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## The EU and Japan: a partnership in the making

By Axel Berkosfsky

### Introduction

There is no shortage of political rhetoric about the need to expand EU-Japan relations, typified by European Commission President José Manuel Barroso's declaration at a summit between the two sides in April 2006 that:<sup>1</sup> "Japan and the European Union are natural strategic partners sharing similar values and strategies on how to tackle international issues."

Mr Barroso went even further, describing Japan as the EU's "most important partner in Asia". While some might dismiss this as little more than the rhetoric typical of such high-level bilateral encounters, his remarks must have pleased Japanese policy-makers who, together with their counterparts in other parts of Asia, have been critical of EU's approach to the region in recent years, accusing it of making its relations with China a synonym for relations with the whole of Asia.

This criticism has been particularly acute since Brussels and Beijing began referring to each other as "strategic partners" in September 2003, and in the light of the EU's policy to expand and intensify its ties with Beijing in as many areas as possible.

The EU's December 2003 European Security Strategy (ESS) states that the EU and Japan are also "strategic partners", but this relationship has attracted only a fraction of the international attention paid to – and the diplomatic energy invested in – the Brussels-Beijing partnership over the past three years.

Indeed, political leaders in the EU and Japan have yet to explain fully what value their "strategic partnership" will add to existing bilateral ties and how this will help the two sides to implement their envisioned ambitious cooperation within the framework of their December 2001 Joint Action Plan.

This action plan commits these two 'soft powers' to seeking ways to coordinate their respective development, humanitarian and peacekeeping policies, and intensify cooperation in areas such as conflict prevention, post-conflict reconstruction and assistance in Europe (for example, in the Western Balkans) and Asia (for example, in Cambodia).<sup>2</sup>

Although their track record to date in pooling resources and coordinating policies related to conflict prevention and peace-building is not unimpressive, Brussels and Tokyo certainly could do more – and President Barroso thinks so too. In the run-up to the April 2006 summit, he reportedly had a "nagging feeling" that the EU and Japan were not doing enough to tackle the world's problems together in spite of the action plan.

What is more, both sides are notorious underachievers in terms of public diplomacy. Both are poor at explaining their development and humanitarian aid policies (individual or joint) to the outside world and, as a result, a lot of their 'good deeds' go unnoticed.

Together, Japan and the EU account for roughly 40% of global Gross Domestic Product, and their bilateral trade is impressive and expanding. However, the market access obstacles faced by European companies and problems related to regulation continue to hinder European investments and business activities in Japan – despite former Prime Minister Junichiro Koizumi's results-oriented efforts to further open up the Japanese market to EU goods and services, with the aim of increasing European Foreign Direct Investment (FDI) in the country by 100% by the end of the decade.<sup>3</sup>

In the external relations arena, in the light of Japan's close (and ever closer) security and military ties with the United States, EU-Japan work on security issues will continue to focus on non-military (or what is referred to as 'alternative') security cooperation;<sup>4</sup> i.e. using the EU and Japan's financial and economic

resources to, for example, improve and stabilise a fragile security environment through Official Development Assistance (ODA) and other forms of development and financial aid.

From a Japanese perspective, non-military security cooperation with the EU complements Tokyo's military security cooperation with the US, and reflects foreign and security policy strategies developed by Japan in the 1990s in response to the emergence of the Union as a wider foreign and security policy actor with potential global reach.

Japan is successfully using its relations with the EU as part of its broader foreign policy agenda promoting international 'soft power' policies, and its approach to peace-building and peace consolidation in Asia, Africa and elsewhere.

For its part, the EU is using its ties with Japan in the field of peace-building, peace-consolidation and human security<sup>5</sup> to facilitate the implementation of its humanitarian, foreign and security policies in Asia.

Over the last decade, Brussels and Tokyo have established a framework for regular consultations and meetings on issues of common interest, including discussions ahead of the annual session of the United Nations Commission on Human Rights in Geneva. They have also made joint efforts to promote international disarmament<sup>6</sup> and limit the proliferation of weapons of mass destruction (WMDs), and both support the establishment of the International Criminal Court (ICC).

EU-Japan cooperation has not fulfilled all its potential yet, but, given the two sides' global economic, financial and political leverage, influence and capabilities, they could clearly change that if they wanted to.

## I. Background

### EU-Japan relations during the Cold War

During the Cold War, exchanges and relations between the EU and Japan were fairly limited. A divided Europe was geographically and ideologically caught in the middle of the Cold War stand-off. Western Europe was mainly preoccupied with its economic and social reconstruction, while Japan took the US as its main point of reference in its foreign and economic policy.

Japan enjoyed (and still enjoys) the protection of the US 'nuclear umbrella' and made little effort, until the 1980s, to reduce its security and defence dependence on the super power.

For many years after World War II, the US was also Japan's main economic and trading partner. It drew up Japan's democratic constitution in 1947 and actively supported the country's reconstruction through economic assistance and by opening up its markets to Japanese products.

Although conservative scholars, journalists and sections of the ruling Liberal-Democratic Party (LDP) have complained that Japan's 'pacifist constitution'<sup>7</sup> was 'imposed' on it by an occupying force in the aftermath of the country's defeat in World War II, this framework has defined the scope and limits of the country's regional and global security and defence policies for decades.<sup>8</sup>

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

The US' increasing economic and military power in the 1940s and 1950s, coupled with its growing influence on Japanese foreign and security policies in the context of the bilateral military alliance established in 1960, meant that Tokyo's relations with Europe remained a relatively insignificant part of its overall external relations policy.

For Europe and the emerging European Economic Community (EEC), growing ideological confrontations with the US, on the one hand, and with the USSR and its Eastern European satellites, on the other, meant that its relationship with 'far-away' Japan was not a foreign policy priority either. In other words, as the scholar Julie Gilson puts it: "Japan and Europe had little or nothing to offer one another."<sup>9</sup>

The US was a strong supporter of European integration and encouraged Japan to build strong links with the EEC and the six countries which founded it in 1957: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. However, Japan's interest in the EEC was limited, as it regarded the Community simply as a political project to promote Franco-German reconciliation. The EEC, Tokyo argued, was an 'intra-European affair' with very few (if any) implications for business and trade relations between Europe and Japan.

Japan's spectacular economic rise in the 1950s and 1960s was observed with suspicion by EEC countries and the UK, as Japanese multinational companies turned into formidable competitors able to produce and sell their goods and products at cheaper prices than their European counterparts.

Fears grew when Japan – supported by consecutive governments determined to protect local business and industry from foreign competition by virtually 'closing' the country to foreign companies – began exporting cars and electronics appliances worldwide. With US support and its readiness to keep its market open to rising exports, Japan quickly rose to become a globally competitive trading power capable of threatening American and European dominance.

Japan's economic rise in the 1970s and 1980s was accompanied – as China's is now – by a trade imbalance in its favour as Japanese-made cars and stereos flooded European markets.

In the late 1980s, towards the end of the Cold War, the country's political leaders began to embrace the idea of 'trilateralism' to promote stronger relations between the US, the EEC and Japan. This was accompanied by an intensification of relations between Brussels and Tokyo, which eventually led, in 1991, to The Hague Declaration.

However, the concept of an EU-US-Japan-shaped 'trilateralism' never formally made it onto Tokyo's foreign and security policy agenda – and it was of even less interest to Washington, which, although it supported European integration, did not at that time consider the EEC to be a significant player on the international stage.

### **The 1991 Hague Declaration**

The EU and Japanese efforts to intensify their economic, political and security ties after the end of the Cold War began to bear fruit in July 1991, when Brussels and Tokyo adopted the Hague Declaration, which codified the strengthening of bilateral relations.

This declaration was partly the result of Japan's 'Europhoria' after the end of the Cold War and was accompanied by hopeful rhetoric that the first decade of the 21<sup>st</sup> century would be a "decade of Euro-Japanese cooperation" resulting in a "millennium partnership between Brussels and Tokyo", as former Foreign Minister Yohei Kono put it in 2000.<sup>10</sup>

However, while the declaration stated that the EU and Japan shared a similar set of principles and values (such as democracy, the rule of law and the promotion of human rights and democracy),<sup>11</sup> in concrete terms it did little more than codify and institutionalise the existing bilateral *ad hoc* arrangements between Brussels and Tokyo, establishing an institutional consultative framework and an annual summit meeting between the Japanese Prime Minister and the Presidents of the European Commission and Council.

### **The 2001 action plan and the 'strategic partnership'**

A decade later, in December 2001, the EU and Japan agreed a 'Joint Action Plan for EU-Japan Cooperation' which identified more than 100 areas where there was scope for bilateral initiatives, ranging from joint peacekeeping and security cooperation to strengthened economic cooperation and increased academic and cultural exchanges.

This plan was divided into four main sections:

- promoting peace and security;
- strengthening the economic and trade partnership;
- coping with global and societal changes;
- bringing together people and cultures.

Among other things, it called for the intensification of EU-Japan cooperation in areas such as United Nations reform, arms control and nuclear non-proliferation, conflict prevention, monetary issues, trade, the fight against poverty, coping with ageing societies, education and the environment.

In fact, it covered so many of the key issues facing today's globalised world that it was criticised for being little more than a 'shopping list' of unresolved international issues. Its critics also complained – and still do – that it lacked a clearly defined agenda for action over the following decade.

In relation to security cooperation, for the most part the action plan simply codified bilateral initiatives which began in the 1990s – with the notable exception of the fight against international terrorism. It did not invent 'new' issues or forms of security cooperation, which may help to explain why it has attracted such limited international attention.



However, progress has been made towards achieving some of the plan's objectives, including the adoption of the Investment Framework to boost two-way direct investment in 2004, joint participation in the scientific ITER project (analysing the feasibility and desirability of fusion as a large scale source of energy) in 2005, and the recent signing of a Japan-Euratom agreement.

Tokyo and Brussels also envisage the development of a 'strategic partnership', as formulated in the EU's December 2003 European Security Strategy (ESS).<sup>12</sup> However, while the EU has undertaken many widely publicised efforts to implement a similar partnership with China over the last two or three years, it has put far less effort into fleshing out what this means for its relationship with Japan.

### Japan's contribution to the Western Balkans

After the fall of the Berlin Wall, Japan decided to make a significant contribution to the reconstruction of Central and Eastern Europe and, later, to efforts to bring peace to the Western Balkans.

Tokyo channelled its assistance through the Conference on Security and Cooperation in Europe (now the Organization for Security Cooperation in Europe), of which it became a 'Partner of Cooperation' in the 1990s.<sup>13</sup> Since the 1990s, it has also contributed almost \$2 billion to the reconstruction of the Western Balkans in the context of what it refers to as 'peace-building' policies.<sup>14</sup>

Concrete initiatives by Japan in this area over the past decade include:

- dispatching election observers to a mission under the auspices of the Council of Europe Election Observation Mission for elections in Kosovo (August 2004);
- deploying specialised personnel to train local police;
- supporting the establishment of the international tribunal for war crimes in Bosnia and Herzegovina;
- contributing more than \$200 million to the reconstruction of Kosovo;
- deploying peacekeepers in Kosovo and Bosnia-Herzegovina;
- becoming a participant in the Steering Committee of the Peace Implementation Council for Bosnia-Herzegovina;
- providing significant ODA payments to the Balkans and contributing financially to the 'Trust Fund for Human Security'; and
- jointly hosting the Ministerial Conference on Peace Consolidation and Economic Development of the Western Balkans in Tokyo in April 2004.

As former Foreign Minister Yoriko Kawaguchi said at the 2004 conference, Japan's decade-long engagement in the Western Balkans is to be understood in the context of its 'three pillar policy' approach: the 'consolidation of peace' (for example, support for the International Criminal Tribunal for former Yugoslavia); economic development (for example, support for structural reform, technical assistance, capacity-building and the promotion of inward investment); and regional cooperation (for example, providing financial loans, infrastructural and transport support).

Both independent and government-sponsored Japanese non-governmental organisations (NGOs) are still working on the ground in the Balkans, providing financial, developmental and technical support and assistance. The Japan International Cooperation Agency (JICA), a Japanese NGO implementing development and reconstruction projects for the Ministry of Foreign Affairs, has worked closely with European NGOs over the last decade. (For example, during the war in Kosovo, JICA distributed the largest share of Japanese financial assistance, which was used to promote Japanese approaches towards peace-building and human security.)

Part of Tokyo's strategy to legitimise its involvement in European security has been to promote its 'soft power' image in Europe and beyond by building up contacts between Japanese and European NGOs in conflict zones.

Mainly thanks to its contribution to the Western Balkans, Japan was granted observer status at the Council of Europe in 1996 and, in recognition of this work, the EU followed Japanese advice by becoming involved in the Korean Energy Development Organization (KEDO) in 1995.<sup>15</sup>

### **Brussels' 'added value'**

How is the EU perceived in Japan? Does Brussels matter to Tokyo as a global foreign and security policy actor? "Positively" and "up to a point and within limits" are probably the short answers to these questions.

The bad news is that public awareness of the EU is still very low in Japan. The EU rarely makes front-page news and only a relatively small number of scholars and politicians understand, and are interested in, how the EU works. However, this is gradually changing as an increasing number of Japanese universities are offering European Studies courses and the number of Japanese scholars studying and teaching in Europe is steadily rising.

From the end of the 1980s, and especially following the adoption of the 1991 Hague Declaration, an 'EU factor' began to influence all the political relationships between Europe and Japan,<sup>16</sup> although Japan continues to stress its bilateral ties with the EU's bigger Member States – above all, with France, Germany and the UK – as well.

Partly because of the complexity of the EU's decision-making process, and partly because of a lack of understanding of how competences are divided between the EU institutions and its Member States, Japanese policy-makers are still uncertain about how far Brussels really 'matters' on the global stage and which European decisions important to Japan are taken by individual EU Member States and which are taken by the EU as a whole.

The failed referenda on the EU's Constitutional Treaty in the Netherlands and France in 2005 were seen by Japanese policy-makers as a sign that EU integration has its limits and that Tokyo will have to continue to deal with national governments as much as with Brussels in order to 'get the most' out of Europe.

The Japanese rationale for expanding its relationship with the EU after the end of the Cold War was to 'diversify' its international political and security relations, which had until then been defined and absorbed almost entirely by its bilateral alliance with the US. Tokyo believed that intensifying relations with the EU would give its international diplomacy greater balance, making it less vulnerable to accusations that its regional, foreign and security policies needed to be endorsed or even 'approved' by Washington.

In November 2002, a report by the 'Task Force on Foreign Relations', a body set up to advise the then Prime Minister Junichiro Koizumi, identified the EU as a "strong partner" in selected areas of cooperation. "In a new world order," stated the report, "Japan needs to have a strong partner according to individual issues. In some issues, Europe can be a rational choice as such a partner."

However the task force also warned that it would be "necessary for Japan to choose between dealing with the EU (Commission or Presidency) and negotiating with relevant member countries bilaterally at its own discretion to suit individual cases", indicating that Japan reserves the right to continue dealing with individual EU Member States when this best suits its interests.

Despite the EU's steadily growing importance as a global foreign and security policy actor, Japan's Ministry of Foreign Affairs still assigns far more staff and resources to the departments dealing with Asia and the US than to Europe.

Furthermore, because of the division of labour within the ministry (and also intra-ministerial competition between bureaucrats dealing with economic, political and security relations), Tokyo does not (and maybe never will) have a single and coherent strategy towards the EU. Relations with the Union and with Europe as a whole are discussed within the Ministry's United Nations and International Peace Cooperation Division, the Science and Nuclear Energy Division and the Global Issues Division.

## II. Japan, the US and a troubled neighbourhood

Assessing the scope and limits of EU-Japan cooperation in the security-military or non-military fields requires an understanding of Tokyo's foreign and security policies and of the key factors which define and constrain them.

Why does Japan act internationally the way it does? What norms define the country's foreign and security policies? How do relations with its neighbours affect its regional security policy and behaviour?

In recent years, and especially in the wake of Mr Koizumi's promise to support the US war on terrorism "unconditionally", the country's foreign and security policies appear to be contradictory. On the one hand, Tokyo is seeking to expand its regional and global multilateral 'soft power policies' (with the EU and others), while, on the other, it supported the US-led invasion of Iraq despite the lack of a UN mandate, prompting criticisms that Japan was jeopardising its 'soft power' status.

While Tokyo's regional security policies in Europe in the 1990s (particularly its contribution to the reconstruction of the Western Balkans) were those of a 'soft' or 'civilian' power, as German political scientist Hanns Maull described both Germany and Japan at the beginning of the 1990s, the increasingly assertive regional security policies initiated by Mr Koizumi were those of a regional power locked into a close military alliance with the US.

For the Japanese government, combining 'soft power' policies with its obligations within the framework of a bilateral military alliance is not a contradiction but rather a two-pronged strategy which serves its national and regional security interests very effectively.

### The US-Japan security alliance

The Japanese government believes that projecting military force and maintaining military alliances are 'insurance policies' for the country's national security. Indeed, current Prime Minister Shinzo Abe intends to continue expanding the scope of Japan's security alliance with the US, including the joint development of a regional missile defence system (see below).

Thanks to this alliance – and the presence of more than 40,000 US troops on Japanese soil – Tokyo has been able to limit its defence budget to 1% of the country's GDP, and enjoys the protection of the American 'nuclear umbrella'. (The US-Japan Security Treaty signed in 1960 included a US commitment to defend Japan in the event of an attack.)

Until Yasuhiro Nakasone became Prime Minister in the 1980s, Japanese political leaders showed little ambition to 'emancipate' their country within this asymmetric security alliance or to shake off Japan's image as the Americans' loyal 'junior' alliance partner, paying the 'bill' for the US military presence on its soil.<sup>17</sup> In fact, Japan (like South Korea) supports this military presence to the tune of \$5 billion a year.<sup>18</sup>

In the 1980s, Mr Nakasone – an assertive and (by Japanese standards of the time) hawkish politician – argued that Japan needed to upgrade its defence capabilities to make it less dependent on the US military, even if this meant increasing the country's defence budget.<sup>19</sup> He did so (albeit temporarily) in 1986, prompting fierce protests in Japan and suspicions in the region that Tokyo was planning to return to World War II-style militarism and expansionism – although this fear proved to be unfounded.

The American reaction was mixed. On the one hand, US policy-makers welcomed Japan's efforts to upgrade its defence capabilities as a sign that Tokyo was preparing to support the US actively in the event of a regional crisis. On the other hand, Washington feared that Japanese plans to upgrade its defence capabilities would, in the long run, be accompanied by calls for a reduction in – and the eventual withdrawal of – US forces from the country.

Japan is now spending more than 1% of its GDP (roughly \$43 billion)<sup>20</sup> on defence, more than any other single country except the US and Russia (and possibly China, depending on whether one considers its official or unofficial defence budget).<sup>21</sup>

American concerns about Japan's growing self-confidence in defence and security matters never made it onto the official US-Japan agenda. However, in the mid-1990s, US policy-makers initiated a revision of the US-Japan Guidelines for Defence Cooperation.<sup>22</sup>

The new guidelines, agreed in 1997, replaced those of 1978 which had essentially limited Japan's military role in a regional crisis to providing the US with military bases on its territory and logistical support. Japan was given additional duties and military responsibilities, and US-Japanese military cooperation was expanded *de facto* to geographically undefined "areas surrounding Japan" (Jap. *nihon shuhen*). Laws implemented in 1999 and 2000 also implied *de jure* that Japan would be asked to provide the US with logistical and military assistance in the event of a military confrontation with China over Taiwan.<sup>23</sup>

Officially, the aim of the 1997 guidelines was to create a framework for Japan to share the 'burden' of defending its territory and US soldiers stationed on Japanese soil (indeed, the term 'burden-sharing' was one of the key words during the process of revising the guidelines). From an American perspective, they were also intended to counterbalance Japanese ambitions to reduce its security dependence on the US to a level below that deemed 'acceptable' by Washington.<sup>24</sup>

Indeed, this revision took place at a time when the Japanese defence establishment was repeatedly thinking aloud about upgrading the country's defence capabilities so that it could defend itself without US support in the event of an attack.

### **Upgrading the alliance – again**

The US and Japan are currently discussing yet another revision of these guidelines.

Prime Minister Abe has confirmed Tokyo's commitment to developing a joint US-Japanese regional missile defence system and is determined to upgrade his country's defence capabilities to protect the country from a missile or even nuclear attack by North Korea.<sup>25</sup> Japan and the US began cooperating on the development of a missile shield after North Korea fired a missile over Japanese territory in August 1998.

For years after this incident, Japan maintained that it had not decided whether to move from the research to the development phase of a missile defence system. Then, in 2005, it officially confirmed that it would do so. Realistically, Tokyo would not have invested significant funds during the research phase if it had not intended to move onto the next phase and eventually station the system on Japanese soil.<sup>26</sup>

Beijing is particularly concerned about the current revision of the US-Japan defence guidelines as it fears that Tokyo will commit itself officially to fight against China alongside the US in the (very unlikely) event of a war over Taiwan.

These fears were heightened when, in 2005, Japan confirmed publicly for the first time that peace and stability in the Taiwan Strait were of "vital interest" to its security. Before that, Japanese political leaders had strictly avoided mentioning Taiwan and the Taiwan Strait in the context of security cooperation with the US, even though the 1997 guidelines left very little doubt that, in the event of a military confrontation with China in the Strait, the US would request active Japanese military support.<sup>27</sup>

For Japan's defence establishment and the ruling LDP, upgrading the US-Japan alliance to give Tokyo additional responsibilities and duties is part of the government's strategy to become a 'normal country' (Jap. *futsu no kuni*). In keeping with this strategy, the country's 'Self-Defence Forces (SDF)' are being turned into 'normal' armed forces and its 'Defence Agency' renamed the 'Ministry of Defence.'

Although the SDF's status has not yet changed, the Defence Agency changed its name on 9 January this year.<sup>28</sup> While this had been discussed for many years, creating a 'fully-fledged' ministry *per se* will neither lead to an increase in Japan's defence budget nor to a change in its regional and global security strategies (as feared in South Korea and China in recent years).<sup>29</sup>

Revising Japan's 'pacifist' constitution is among the issues at the top of Mr Abe's foreign and security policy agenda, but it is very unlikely that this will happen any time soon. Not only does it require approval by a two-thirds majority in both chambers of the Japanese parliament, but it must also be endorsed by the Japanese electorate through a popular referendum. Both seem very unlikely, at least for the foreseeable future.<sup>30</sup>

### North Korea

Prime Minister Abe is known for his hard-line approach towards North Korea and he has repeatedly warned that resolving what is known as the 'abduction issue' is a pre-condition for improving relations.<sup>31</sup>

Mr Abe, together with most of his LDP colleagues, is urging the political leadership in Pyongyang to provide Tokyo with detailed information about what happened to up to 100 Japanese citizens who were kidnapped in the 1970s and 1980s and taken to North Korea to be 'employed' as language instructors for North Korean secret service agents. Pyongyang continues to refuse to address this issue, claiming that it was settled at the Japanese-North Korean summit in Pyongyang back in 2002.

After North Korea carried out a nuclear test last October, Japan introduced further sanctions against Pyongyang, including bans on North Korean ships calling at Japanese ports, North Korean nationals entering Japan, and North Korean imports, including agricultural products.<sup>32</sup>

### Japan's position in Asia

When it comes to relations within Asia, Tokyo is combining policies drawn up within the framework of the US-Japanese security alliance with its multilateral security and economic policies.

In recent decades, its 'comprehensive foreign policies' (Jap. *anzen hosho gaikô*) – with an emphasis on providing ODA to developing economies – have proved to be its most effective foreign and security policy tool in Asia and beyond.

Today, Japan is still (despite recent reductions) Asia's largest single ODA donor by far. However, in recent years, Asia's developing economies have increasingly turned to China for assistance, and a growing number of Asian countries (such as Cambodia, Laos, Myanmar and Vietnam) have received generous Chinese financial, technological and other support.

Japan is primarily a 'soft power' and is widely perceived as such in Asia, but Tokyo's support for the US-led invasion of Iraq damaged the country's pacifist image, codified through Article 9 of its constitution, which denies it the right to maintain armed forces or attempt to solve international conflicts through the use of military force.<sup>33</sup>

Despite the shaky political relationship between Japan and China, bilateral trade amounted to roughly \$200 billion in 2005, with Japan investing \$6.5 billion in China in the same year (compared with the \$3 billion or so invested by the EU). Analysts agree that neither Tokyo nor Beijing is willing to jeopardise lucrative economic and business relations over bilateral disputes fuelled by differing interpretations of Japan's wartime history and territorial conflicts.

Shortly after he took office, Prime Minister Abe visited both China and South Korea, confounding the fears voiced by a majority of analysts and observers that Japan would not seek to improve relations with Seoul and Beijing during his term of office. It had been assumed that he would not only continue with former Prime Minister Koizumi's 'assertive' foreign and security policies, but would also seek to make Japan even

more 'assertive' towards North Korea, continue to visit the controversial Yasukuni Shrine<sup>34</sup> and refuse to compromise in territorial disputes with China and South Korea.<sup>35</sup>

The EU welcomed Mr Abe's visits to China and South Korea, which were even more remarkable in that he chose to travel to China before going to Washington after taking office. As long as the Prime Minister does not visit the Yasukuni Shrine – and there are no indications that he is planning to do so – it is likely that he will continue to invest political capital in improving relations with both countries.

This is particularly important given North Korea's recent nuclear test and the need to coordinate policies towards Pyongyang in the framework of the six-nation talks involving Russia, China, the US, North Korea, South Korea and Japan.<sup>36</sup>

However, while the US, Japan and South Korea agreed to meet North Korean negotiators in Beijing on a relatively regular basis in the hope that this could lead to a verifiable dismantling of North Korea's nuclear programme, Pyongyang wanted a security guarantee that the US would not use military force in pursuit of regime change in return for as-yet undefined concessions on its nuclear development programme.<sup>37</sup>

After the US blacklisted the Macau-based Banco Delta Asia, accusing it of distributing counterfeit dollars on behalf of North Korea, Pyongyang temporarily withdrew from last year's six-nation talks.<sup>38</sup> However, thanks to Chinese mediation, the North Koreans returned to the talks this February, and agreed to close and seal their main nuclear facilities within 60 days in return for 50,000 tonnes of heavy fuel oil, food and humanitarian aid.

### **Territorial disputes**

Territorial disputes between Tokyo and Beijing over small islands and parts of the East China Sea continue to overshadow Sino-Japanese relations and have, in recent years, led to frequent diplomatic friction between the two countries.<sup>39</sup>

Japan and China dispute not only the 'ownership' of the *Senkaku* (Japanese) or *Diaoyu Tai* (Chinese) islets, but also of the vast gas resources believed to exist in the waters surrounding them. Chinese navy vessels have repeatedly been seen close to the disputed islands over the last 18 months, and Japanese coastguards have been dispatched several times to 'protect' its fishing boats in the same area.

In June 2004, China submitted a plan for the joint exploitation of gas resources in the East China Sea for the first time, but Prime Minister Koizumi decided not to take up the offer. His successor is likely to go on refusing the same or similar offers and, although it is very unlikely that these territorial disputes will lead to clashes between the Chinese navy and Japanese coastguards, a solution to this issue which would be acceptable to both sides is not yet in sight.

Japan and South Korea are also engaged in heated disputes over islets in East Asian waters, namely the Takeshima/Tokdo islands. Although there are no gas or oil resources to be exploited close to these islets, the dispute has led to numerous diplomatic spats between Tokyo and Seoul over the last two years and further aggravated strong anti-Japanese sentiment in Korea and sparked numerous demonstrations.

Like his predecessor, Mr Abe will continue to be under intense pressure to defend what Japan claims is part of its territory, and, without a fundamental shift in positions on all sides, territorial issues will continue to mar relations between Tokyo, Beijing and Seoul.

### **Iraq**

The events of 9/11 changed Japan's foreign and security policy priorities and conduct, following Mr Koizumi's promise of "unconditional support" for US President George Bush's 'war on terror' a few days after the attacks in New York and Washington in 2001.

In the run-up to the invasion of Iraq, the Japanese government did not rule out holding consultations with Brussels on the issue, but, according to media reports, found it ‘impossible’ to have a meaningful dialogue with the EU Presidency, the Union’s High Representative for the Common Foreign and Security Policy Javier Solana and the European Commission on this issue because of the divisions between major EU Member States.

This assessment, however, has only limited credibility as there was no convincing reason why such discussions should have been ‘impossible.’ Rather, it is doubtful that the Japanese Prime Minister ever intended to coordinate his Iraq policy with anyone other than the US.

Mr Koizumi’s support for the US-led invasion of Iraq ran counter to Japan’s foreign and security policy mantra throughout the 1990s of ‘UN-centrism’ (Jap. *kokuren shugi*), which defined the UN as the ultimate authority and decision-maker on international security.

During the 1990s, this was one of the most frequently used ‘buzzwords’ among Japanese foreign and security policy-makers, and appeared to make Japanese contributions to international missions without UN authority all but unthinkable. But it lost much of its credibility when Mr Koizumi described the UN as “irrelevant” during the Iraq crisis and supported the invasion of the country without a UN mandate.

Ironically, Mr Koizumi’s decision to ignore the UN’s strong reservations about the invasion of Iraq came at a time when the Japanese government (together with those of Germany, Brazil and India) was campaigning for a permanent seat on the UN Security Council.<sup>40</sup>

Despite Japanese denials that both its deployment of supply ships to the Indian Ocean in 2001 to provide logistical support for US and British armed forces fighting the Taliban in Afghanistan and the deployment of troops to Iraq in 2004 took place under US pressure, there is little doubt that this was the case. The then US Secretary of Defence Donald Rumsfeld repeatedly indicated, both before and during the war in Iraq, that the US counted on Japanese (and South Korean) support since, under the terms of the US-Japan Security Treaty, the US would defend Japan in the event of an attack from North Korea.<sup>41</sup>

The deployment of Japanese supply ships to the Indian Ocean was controversial as it made Japan *de facto* a part of the US-led war against the Taliban in Afghanistan, which was arguably a breach of Article 9 of the Japanese constitution.

Equally controversial was the fact that, *de facto*, Tokyo acted on the basis of the right to collective self-defence as defined in Article 51, Chapter VII, of the UN Charter. While Japan acknowledges the legitimate right of sovereign nations to collective self-defence, it does not permit itself to invoke that right in the light of its pacifist constitution – although Prime Minister Abe has made it clear he wants to change this interpretation of the constitution.

His predecessor responded to such criticisms by arguing that Japan’s contribution to the war against the Taliban in Afghanistan constituted an act of self-defence (though not of collective self-defence), to protect the country against the threat of terrorist attacks.

The UN Security Council Resolution 1546 (which was replaced by Resolution 1637 in November 2005) authorising the multinational operation in Iraq, was adopted in May 2004, roughly two months after Japanese forces were deployed. This deployment was authorised by the 2003 ‘Iraq Reconstruction Assistance Law’ and the mission ended in June 2006.

Constitutional controversies aside, Japan’s humanitarian mission in Iraq from February 2004 to June 2006 was successful and played a meaningful role in Iraq’s reconstruction.

Japanese public opinion judged it a success because the country’s troops did not suffer any casualties. Recognising that the public would not have tolerated any loss of life and that this would have forced an

immediate withdrawal of troops from Iraq, the Japanese government chose (relatively safe) southern Iraq for its mission in order to ensure that its forces would neither be attacked by insurgents nor be put into a position where they had to defend soldiers from other nations.

Furthermore, because of the very strict limits on the use of military force for self-defence purposes by Japanese troops away from home, Dutch (and, later, Australian) troops were given the task of guarding Japanese troops in southern Iraq. Put simply, they were there to make sure that, in the event of an attack, Japanese soldiers would not be confronted with a situation in which they would be required to use military force in self-defence.

The Japanese Air Force and a unit of C-130H transport aircraft (stationed in Kuwait) are still operating in Iraq and the government is considering extending the air force's mission after Japan's 'Iraq Reconstruction Law' expires in July 2007.<sup>42</sup> Transport airplanes are engaged in airlift missions for multinational forces and UN personnel between Iraq and Kuwait.



### III. EU-Japan security cooperation

#### Scope and limits

From a Japanese perspective, the EU can contribute very little, if anything, to the country's security given Tokyo's close defence ties with the US and the currently fragile security environment in East Asia.

There is a consensus in Japan that any security cooperation with the EU can only be complementary to its military and security cooperation with the US, which is centred around traditional military security. In contrast, EU-Japan security cooperation emphasises the non-military aspect of such cooperation.

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

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

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

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

- agreeing to jointly promote the reform of the Conventional Weapons Protocol on anti-personnel landmines;
- supporting the conclusion of the Comprehensive Test Ban Treaty (CTBT);
- signing an agreement on universal adherence to the Nuclear Non-Proliferation Treaty;
- jointly supporting implementation of the principles and objectives for nuclear non-proliferation and disarmament;
- promoting the non-proliferation of nuclear weapons and the abolition of anti-personnel landmines through joint support for the Ottawa Convention of 1997 and the November 2002 International Code of Conduct against Ballistic Missile Proliferation;
- engaging in joint peacekeeping and peace-building initiatives;
- holding European-Japanese seminars, training and workshops on post-conflict nation-building in Afghanistan, Cambodia and a number of African countries;
- holding regular joint training sessions for UN peacekeepers;
- engaging, since July 2002, in periodic consultations on terrorism and counter-terrorism cooperation;
- signing the 'Joint Declaration on Nuclear Disarmament and Non-proliferation' in June 2005.<sup>43</sup>

However, EU-Japan cooperation on nuclear disarmament and the abolition of all nuclear weapons lacks credibility given that Japan continues to enjoy the protection of the US nuclear umbrella, while in Europe nuclear disarmament is not a priority – nor even an option – at least for the time-being, for at least two EU Member States: the UK and France.

After North Korea's nuclear test in October 2006, some leading members of the LDP indicated that a nuclear-armed North Korea could reignite the debate in Japan about developing its own nuclear deterrent. This was originally discussed in the 1970s, albeit unofficially and in secret, and there is little doubt amongst experts and analysts that Japan (like South Korea) has the know-how and technology to develop nuclear weapons within a relatively short period of time.<sup>44</sup>

Only a small minority within the LDP currently favour this approach, but further nuclear tests and evidence that Pyongyang is actually starting to deploy nuclear missiles could push Japan to consider developing a

nuclear arsenal to deter North Korea. However, Prime Minister Abe has repeatedly confirmed Japan's policy of not developing or stationing nuclear weapons on Japanese territory – so this does not appear to be an option for now.<sup>45</sup>

### **East Asia's security environment**

Until last year, the EU and Japan did not discuss Asian regional security issues on a regular institutional basis.

To fill this gap, Brussels and Tokyo launched a 'strategic dialogue on East Asia's security environment' in September 2005 to discuss such issues, including the implications of the possible lifting of the EU arms embargo imposed on China in 1989. Although officially the embargo<sup>46</sup> was just one of the security issues discussed at the first EU-Japan 'strategic dialogue', it was certainly the most important one from a Japanese perspective.

Throughout 2004 and 2005, both Japan and the US were concerned that the EU would lift its embargo, and resume and even increase its weapons and military technology exports to China, thus supporting Beijing's efforts to modernise its armed forces.

Both countries complained – both officially and unofficially – that Brussels did not seem to be sufficiently aware of the possible impact of EU policies towards China and suggested that these and other issues should be addressed regularly by the EU, the US and Japan on a bilateral basis.

It is, in fact, questionable whether Tokyo or Washington (which established a similar dialogue with the EU in 2004) would have suggested taking this step if the EU had not considered lifting the arms embargo. As it was, numerous media reports that the EU was about to do so – which triggered fears in Tokyo (and Washington) that the Union was in danger of jeopardising its relations with them for the sake of pleasing Beijing and signing lucrative business deals – turned out to be false.

It remains to be seen whether the EU-Japan 'strategic dialogue' has a *raison d'être* beyond discussions on the weapons embargo, and whether there are enough strategic issues of common interest in Asia for the EU and Japan to discuss. North Korea and its nuclear weapons programme is potentially one such issue, but Japan's main (if not only) partner for dialogue in this context will remain the US.

## IV. EU-Japan trade and business relations

### Solid, but could do better

EU-Japan trade relations are solid, with overall bilateral trade amounting to roughly €116 billion in 2004.<sup>47</sup> Although this is below the level of the Union's trade with China (now the EU's second biggest trading partner after the US, with bilateral trade totalling more than €200 billion in 2006), the €30.5 billion trade deficit in Japan's favour is significantly lower than the EU's trade deficit with China, which amounted to €106 billion in 2006.<sup>48</sup>

With a 4.1% share of EU exports in 2005, Japan is the EU's fifth largest export market after the US, Switzerland, Russia and China, and accounts for 7.36% of EU agricultural exports, 5.46% of its textiles and 5.39% of its chemical products. With a 6.2% share of the EU import market in 2005, Japan is the fourth largest source of imports into the EU after the US, China and Russia.

However, when it comes to doing business and investing in Japan, the country still seems to be 'different.' Its complex and costly distribution system has become counterproductive and does not serve Japan's interests in a globalised economy, even if strong domestic consumption, government-induced protectionism and 'cross-shareholding' (with multinationals buying each other shares in large quantities to avoid being taken over by foreign companies) have long helped to preserve its domestic economic system and business practices, protecting Japanese firms from foreign competition on the domestic market. Regulatory issues and what the EU refers to as "over-regulation" in Japan look set to remain a thorny issue between the two sides for years to come.

Recently, the EU has become fairly outspoken in asking the Japanese government to "reduce unnecessary and obstructive regulation" which stands in the way of strengthening bilateral trade and investment relations.<sup>49</sup> Despite the restructuring and 'internationalisation' of Japan's economy, foreign investors in the country are still confronted with a number of barriers, including taxes on 'unrealised' capital gains made by foreign companies through mergers and acquisitions in Japan.

Despite these obstacles, which are being addressed in the EU-Japan Regulatory Dialogue, the EU was Japan's main foreign investor between 2002 and 2004, with investments totalling up to an average \$5.5 billion per year (for further data on EU-Japan trade and investment, see annex).

Investments by big multinational European companies in the telecommunications, car manufacturing, retail and insurance sectors have made the EU the main source of Foreign Direct Investment (FDI) in Japan. However, it is still rare for small and medium-sized companies in Europe to invest in the country. While 'big ticket operations' and 'rescue acquisitions' by foreign multinationals of Japanese companies on the verge of bankruptcy have been welcomed over the last decade, smaller companies continue to face numerous obstacles and red tape, making investments unattractive and costly.

To address these issues and ensure fair competition with Japanese companies and manufacturers, the EU and Japan established the EU-Japan Regulatory Reform Dialogue in the 1990s aimed, above all, at facilitating European 'state of the art' exports to Japan. Sectors still subject to regulations and, in the EU's opinion, excessive requirements are agriculture, food safety, transport services, telecommunications and, in particular, financial services.

Regulatory issues also made it onto the agenda of the most recent EU-Japan summit, in Tokyo last April, this time with a successful outcome from an EU perspective.

Two days after the summit, Tokyo announced that it was to reconsider the way all-share mergers (where companies merge without any cash changing hands) involving non-Japanese companies are taxed. This initiative was preceded by new Japanese regulations which will lift the restrictions limiting all-share acquisitions to domestic companies. It is hoped that the next round of tax reforms, envisioned to take effect in May 2007, will attract more foreign investment into Japan.

## **The Japanese business response to EU enlargement**

EU enlargement has been of particular interest and benefit to Japanese business. Initial Japanese concerns that it would not allow its multinationals to enjoy the same benefits as European companies have been replaced by the realisation that Japan can only gain from the EU's expansion.

Japan's view of enlargement changed when its multinational companies began to take advantage of low labour costs and low corporate taxes in Eastern Europe. Today, Japanese companies acknowledge that the EU's enlargement in 2004 has made Japanese investment in, and trade with, the new EU Member States significantly easier thanks to a single and codified set of trade rules, laws and standards. In fact, Japanese investments in the new EU Member States, especially Poland and the Czech Republic, have soared in recent years.

Japanese-affiliated companies which already had a base in Europe began moving eastwards in the mid-1990s to profit from the lowering of tariffs on trade between Eastern European countries and the EU. From the mid-1990s onwards, Japanese multinationals began making full-scale investments in Eastern Europe (as opposed to investments by Japanese-affiliated companies already present in Western Europe), such as the setting-up of Japanese manufacturing plants in the Czech Republic, Slovakia and others.

Privatisations in Bulgaria, Romania and Poland attracted further Japanese investments and, in 2004, Tokyo announced 'strategic partnerships' with the Czech Republic and Poland aimed at increasing Japanese investments in both countries. Poland and the Czech Republic also signed agreements with Japan to cooperate in the field of science & technology.

## V. EU-Japan political relations

As far as political relations are concerned, former EU External Relations Commissioner Chris Patten's 'complaint' that "the problem of EU-Japan relations is that there are no problems" still stands.

Leaving the Iraq crisis aside, EU-Japanese disagreements on political issues are extremely rare. Non-military security cooperation between the two sides, and joint support for the ICC and numerous disarmament protocols, are evidence that Brussels and Tokyo share similar approaches towards international security and non-proliferation.

As mentioned above, Japan has been a strong supporter of EU enlargement (admittedly mainly driven by business interests) and Japanese investments in Central and Eastern Europe throughout the 1990s have helped to promote economic and political reform in the some of the countries which joined the EU in 2004.

Given the volume of investments by the world's second biggest economic power, it is fair to say that Japan contributed directly and significantly to making the EU's 2004 enlargement an economic success story.

Partly in return for the significant increase of Japanese investments in Poland and Hungary, both countries strongly supported Tokyo's bid for a permanent seat on the UNSC. They have also both signed the 'Joint Statement Towards a Strategic Partnership' covering economic and security relations.

As part of its drive to strengthen nuclear non-proliferation, Japan convinced three new EU Member States – Estonia, Lithuania and Malta – to sign the Nuclear Suppliers Group Guidelines strengthening (at least on paper) global military export controls.

However, although Japan and the EU jointly promoted an overall reform of the UN, there was never a common EU-Japanese position on the shape and content of that reform, and only very limited consultation between the two on the reform on the UN in general and of the UNSC in particular. The latter, however, should not have come as a surprise given that both Japan and the EU's biggest Member State, Germany, were focused on obtaining a permanent seat on the UNSC for themselves.

## Conclusions

The lack of a sense of urgency to intensify political and security relations beyond the current level means that the pace at which the ambitious 2001 EU-Japan Joint Action Plan is implemented will remain relatively slow and ‘unspectacular’ in the coming years. This is not particularly surprising given current EU priorities with regards to external relations, on the one hand, and Japan’s very close foreign and security policy ties with the US, on the other.

Nonetheless, the perception of the EU as a foreign and security policy actor is growing in Japan, and its recent contributions to Asian security (e.g. its peace-monitoring mission in Aceh) have enhanced its image as a potentially relevant and constructive partner for Asia, including for Japan.

Regulatory issues will remain high on the economic and business agenda of EU-Japan relations for years to come, and the Union can be expected to remain outspoken about the hurdles which European companies keen to penetrate the Japanese market have to overcome. Doing business with, and in, Japan will remain complicated and European investors will continue to face obstacles and red tape unknown in other advanced economies.

The current and future state of EU-Japan economic and business relations will also depend on Prime Minister Abe’s ability to continue implementing economic reforms at home. So far, he has appeared to lack the determination and support from within the ruling LDP to continue down the economic reform path set by his predecessor.

In particular, he has yet to present a long-term plan to reduce Japan’s massive public debt, which now amounts to 160% of the country’s GDP. The Prime Minister and his economic team have also yet to live up to the promise to press ahead with the fiscal reforms initiated by Mr Koizumi. Japan’s economic growth reached a solid 2.5% in 2006, but there are doubts amongst economists as to whether it can repeat that performance in 2007.

In order to make the international cooperation between the EU and Japan more visible, the two sides should consider revisiting the 2001 EU-Japan Joint Action Plan and seek to focus cooperation on a limited number of issues between now and the end of the decade. The plan still seeks to address too many issues in too many areas and without sufficient resources.

The promotion of peace and security should be the focus of EU-Japan cooperation, as this is where the two ‘soft powers’ can make a difference.

The EU has yet to feature prominently on Mr Abe’s foreign policy agenda, understandably in the view of the nuclear crisis on the Korean Peninsular and the need to improve his country’s political relations with China and South Korea. However, that could change. It is notable that Mr Abe recently visited Brussels and had a meeting with European Commission President José Manuel Barroso at which the two men reportedly discussed the EU-Japan ‘strategic partnership’, the North Korean nuclear issue, Iran and the next EU-Japan summit, which will take place in Berlin this June.

This was the first visit of a Japanese head of government to Brussels in 13 years and Mr Abe could not resist the temptation to voice his concerns about the possible lifting of the EU arms embargo on China, echoing his predecessor in urging the EU not to end the ban. Beijing responded by describing his comments as “illogical and unreasonable”, urging him not to “do anything that would harm the recent improvement in bilateral relations”.

On a more positive note, does the fact that Mr Abe chose Brussels and not Washington as the destination for his first trip outside Asia mean that Brussels matters more to him than Washington? Certainly not, but wouldn’t it be nice to think so for a moment?

## Endnotes

1. For the view from the EU Council see EU Foreign Policy Representative Javier Solana 'The common foreign and security policy – The EU's strategic partnership with Japan', speech at Keio University, Tokyo, 24 April 2006.
2. See 'An Action Plan for EU-Japan Cooperation-Shaping our Common Future'. [www.mofa.go.jp/mofaj/area/eu/kodo\\_k\\_e.html](http://www.mofa.go.jp/mofaj/area/eu/kodo_k_e.html)
3. See also 'Cooperation Framework for Promotion of Japan-EU Two-Way Investment'. [http://ec.europa.eu/comm/external\\_relations/japan/summit\\_13\\_22\\_06\\_04/invest.htm](http://ec.europa.eu/comm/external_relations/japan/summit_13_22_06_04/invest.htm)
4. For a detailed and excellent analysis see Christopher W. Hughes (2004) *Japan's Security Agenda-Military, Economic & Environmental Dimensions*, Boulder, London: Lynne Rienner Publishers.
5. For an excellent overview and analysis of the EU's approach towards human security in the context of its global foreign and security policies, see John Kotsopoulos (2006) 'A human security agenda for the EU?', *EPC Issue Paper* No.48, The European Policy Centre (EPC).
6. See, for example, 'Japan-EU Joint Declaration on Disarmament and Non-proliferation'. [http://ec.europa.eu/comm/external\\_relations/japan/summit\\_13\\_22\\_06\\_04/disarm.htm](http://ec.europa.eu/comm/external_relations/japan/summit_13_22_06_04/disarm.htm)
7. 'Pacifist' because the constitution's Article 9 – the 'war renouncing article' – does not allow Japan to maintain armed forces. This is the main reason why Japan's armed forces are called 'self-defence forces' or 'jietai' in Japanese.
8. For decades this has prevented Japan's armed forces participating in international peacekeeping and peace-enforcement missions. This changed, however, in the 1990s, when Tokyo adopted its 'Peacekeeping Law' in 1992, and shortly after dispatched a contingent of well-equipped and well-trained peacekeepers as part of the UN peacekeeping mission in Cambodia. Despite the various problems confronting Japanese troops there – mainly caused by the country's constitutional restraints and the self-imposed ban on using 'collective self-defence' as laid down in Chapter VII of the UN Charter – this was considered to be a breakthrough for Japan's contributions to international peacekeeping missions.
9. For details see Julie Gilson (2000) *Japan and the European Union: A partnership for the twentieth-first century?*, Basingstoke: Macmillan.
10. Yohei Kono 'Seeking a millennium partnership: new dimensions in Japan-Europe cooperation', speech at the French Institute of International Relations (IFRI), 13 January 2000.
11. See Atsuko Abe (1999) *Japan and the European Union: domestic politics and transnational relations*, London: Athlone Press.
12. The other countries mentioned in the ESS as 'strategic partners' of the EU are Canada, China, India and Russia.
13. European Commission President Jacques Santer and Japanese Prime Minister Toshiki Kaifu held their first talks on possible Japanese involvement in Central and Eastern Europe through its participation in the CSCE at the beginning of the 1990s. In 1994, for the first time, Japan took part in the CSCE meeting in Budapest before becoming a 'Partner for Cooperation' in 1998.
14. See Glenn D. Hook, Julie Gilson, Christopher W. Hughes, Hugo Dobson (2005) *Japan's international relations* (second edition), Routledge.
15. KEDO was to provide North Korea with regular heavy fuel deliveries and two light-water reactors in return for Pyongyang's assurance that it would dismantle its nuclear weapons programme. However, the light-water reactors were never built and the fuel deliveries from the US to North Korea were prone to delays and problems, from the time that they were agreed in 'Agreed Framework between Washington' in 1994.
16. See Hosoya Chihiro (1993) *Nihon-gaikou no kiseki* (The track record of Japanese diplomacy), Tokyo: NHK Books.
17. Japan's financial contribution to the maintenance of US military in Japan has been designated as a 'sympathy budget.' Seventy-five percent of US troops stationed in Okinawa are ready to be deployed in the case of an attack on Japan or for any other Asian regional contingency.
18. For details see, for example, Michael Green, Mike Mochizuki 'The Guidelines for U.S.-Japan Defense Cooperation', in Michael Green, Mike Mochizuki (1998) *The U.S.-Japan alliance in the twenty-first century*, New York: Council on Foreign Relations Study Group Papers; Michael Green, Patrick Cronin (1999) *The US-Japan alliance*, New York: Council on Foreign Relations Press; also Yoichi Funabashi Alliance adrift (1998) New York: Council on Foreign Relations Press.
19. Until Nakasone's tenure as Japanese Prime Minister it was government policy - mainly justified by Article 9 of the Japanese Constitution which prohibits the country from maintaining armed forces – not to spend more than 1% of the country's GDP on defence. Currently, however, Japanese defence spending is slightly less than 1% of GDP, although this amounts to an annual defence budget of roughly \$43 billion.
20. To maintain the country's 240,000-strong Self-Defence Forces.
21. Officially China spent roughly \$25 billion on defence in 2005. However according to the London-based International Institute for Strategic Studies (IISS) Beijing's defence budget for 2005 was more than \$65 billion.
22. See, for example, Axel Berkofsky (2005) *Die Amerikanisch-Japanischen Verteidigungsleitlinien-Implikationen fuer Japans regionale Sicherheitspolitik*, Muenster Lit-Verlag Hamburg; Axel Berkofsky (2005) 'Japans Aussen-und Sicherheitspolitik. Regionale Militaermacht oder gehorsamer Allianzpartner Washingtons?', in KAS-Auslandsinformationen Oktober.
23. This *de-facto* meant that US-Japan military co-operation the Taiwan Strait was part of the US-Japan defence alliance, although neither the US nor Japan have ever officially confirmed that Taiwan or the Taiwan Strait would be part of 'areas surrounding Japan'.
24. After the defence guidelines were revised in 1997 a series of laws was adopted Japan facilitating (or legitimising) their implementation.
25. Beijing argues that Japan is using the potential threat from North Korea as an 'excuse' to upgrade its defence capabilities beyond the level necessary to defend its security and territory.
26. In December 2005, Tokyo approved a joint US-Japanese plan to develop a next-generation ship-borne missile defence system (the SM-3) because of growing concern about North Korea's missile programme and Pyongyang's earlier decision to forego the moratorium on missile tests. The SM-3 is part of an anti-missile shield which also includes the land-based surface-to-air PAC-3.
27. The 1997 Defence Guidelines speak of US-Japan military cooperation in the 'areas surrounding Japan' and there was little doubt in Beijing (and amongst the majority of scholars) that Taiwan and the Taiwan Strait are part of that vague geographical concept.
28. At the same time that the Defence Agency was re-named, the government set up a (US-style) National Security Council.
29. Interestingly though, there was no official criticism from China or South Korea after the Defence Agency's change of status was announced in January, since both countries realise that it is largely symbolic and a matter of prestige for Japan's defence establishment.
30. It is unclear whether a majority of Japan's electorate would support the revision of the Constitution that would entail abolishing Article 9. Mr Abe's repeated announcements that revising the Constitution is a political priority is more an expression of what he personally wants to tackle and achieve during his tenure as Prime Minister than what is currently politically feasible.
31. For years Mr Abe was involved in negotiating with Pyongyang and did not always approve of Prime Minister Koizumi's approach towards North Korea which he regarded as being too 'soft.'
32. Earlier in 2006, but after North Korean missile tests in July, Tokyo had imposed limited sanctions on Pyongyang, including banning the Mangyongbong-92, a North Korean ferry that served as transport ship for trade between the Japan and North Korea, from entering Japanese waters for six months.
33. For details see Reinhard Drifte (1998) *Japan's Foreign Policy in the 21st century-from economic superpower to what power*, St. Anthony's Series, Macmillan Press.
34. Controversial because 14 'Class-A' convicted war criminals are buried there. Throughout his tenure Prime Minister Koizumi insisted on visiting the

- shrine, which damaged relations with China and South Korea.
35. International Crisis Group (2005) 'North East Asia's Undercurrents of Conflict' *Asia Report* No.108. [www.crisisgroup.org](http://www.crisisgroup.org)
  36. The six-nation talks hosted by Beijing were established in 2003 to convince North Korea (unsuccessfully as it turned out) to give up its nuclear ambitions and forego the development of nuclear weapons.
  37. For more information, see, amongst many others: International Crisis Group (2006) 'After North Korea's Missile Launch: Are the Nuclear Talks Dead?' *Asia Briefing* No. 52, at [www.crisisgroup.org/home/index.cfm?id=4332&l=1](http://www.crisisgroup.org/home/index.cfm?id=4332&l=1)
  38. The bank was forced to freeze North Korean funds worth more than \$24 million and other banks in Asia followed suit.
  39. For details see, for example, Mark J. Valencia (September 2006) 'The East China Sea dispute: prognosis and ways Forward' Pacnet 47A, Honolulu: The Pacific Forum.
  40. hroughout the 1990s the country's foreign and security policy elites claimed that in view of the country's significant financial contributions to the UN budget and its increasingly active participation in UN peacekeeping missions, Tokyo should have a permanent seat on the UN Security Council. Japan contributes 19.5% of the UN budget, making it the second biggest financial supporter after the U.S, which contributes 22%, and a larger contributor than the four other Security Council permanent members – Britain, France, Russia and China – combined.
  41. US pressure on Japan on security and defence policy issues is referred to as 'gaiatsu', meaning 'pressure from the outside' with the 'outside' virtually always being the US.
  42. The Japanese announced its plans to extend the air force's mission in January 2007, when Washington decided to deploy another 20.000 US troops to Iraq. 'Japan has no choice but to go together with the US. We will extend the Air Self-Defense Forces operation', the Japan Times quoted a senior Foreign Affairs Ministry official on 12 January 2007.
  43. The aim of this agreement is to support the strengthening of the Non-Proliferation Treaty, Comprehensive Test Ban Treaty, Main Battle tank and Light Armour Weapon Law and the International Atomic Energy Agency's Comprehensive Safeguard Agreements and Additional Protocols.
  44. In fact, a few years ago, evidence emerged that in the past Japan (like South Korea) had been engaged in nuclear weapons' research. The plans never made it beyond the drawing board but the research provided Japan with the basis to go nuclear within a relatively short period of time.
  45. High-ranking LDP politicians members of Mr. Abe's cabinet, including Japan's foreign minister Taro Aso, who recently suggested (it appears without consulting with the Prime Minister) re-opening the debate on arming Japan with nuclear weapons should North Korea continue with its nuclear programme.
  46. Lifting the EU arms embargo is currently off the agenda despite Chinese pressure in 2004, 2005 and 2006. The embargo was discussed at every EU-Chinese official and non-official encounter over the last three years. The current German EU Presidency, however, is not planning to re-open the debate either. For the official EU position on the weapons see Joint Statement, Ninth EU-China Summit, Helsinki 9 September 2006; [www.consilium.europa.eu/ueDocs/ms\\_Data/docs/pressData/en/er/90951.pdf](http://www.consilium.europa.eu/ueDocs/ms_Data/docs/pressData/en/er/90951.pdf)
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## Annex

<b>EU-Japan Trade – Total – All products Declaring entity - EU</b>							
	<b>Unit</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Share in total imports	percentage	10.10	9.20	8.20	7.80	7.70	7.20
Share in total exports	percentage	5.20	5.30	5.10	4.80	4.60	4.50
Imports	billion euro	75.24	91.84	80.88	73.31	72.01	73.74
Exports	billion euro	35.65	45.46	45.49	43.43	40.95	43.21
Trade balance	billion euro	-39.59	-46.38	-35.39	-29.88	-31.06	30.53

*Source: Eurostat*

<b>Japan's Foreign Direct Investment (in million US dollars)</b>						
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Machinery	995	1,411	1,219	1,288	957	1,108
Electrical	16,360	3,056	3,865	3,920	5,005	2,039
Transport	4,781	3,141	4,342	4,915	3,014	3,601
Others	1,752	837	850	1,355	809	702
Farming & Forestry	90	27	36	7	158	38
Fishery	26	132	27	56	4	24
Mining	923	675	495	366	1,915	2,054
Construction	182	91	65	121	258	280
Trade	4,164	3,638	2,700	3,694	4,315	1,884
Finance & Insurance	9,887	8,452	10,753	12,801	7,639	11,613
Service	4,554	1,763	1,612	1,836	1,940	2,360
Transportation	2,942	21,884	1,387	1,503	1,876	2,386
Real Estate	2,127	378	692	1,449	1,494	370
Others	8	2	26	27	---	---

*Source: Eurostat*

	2000	2001	2002	2003	2004
<b>Japan – Imports in EU (25) – Total – All products (in billion euro)</b>					
	91,84	80,88	73,73	72,01	73,74
<b>Japan – Exports in EU (25) – Total – All products (in billion euro)</b>					
	45,46	45,49	43,43	40,95	43,21
<b>Japan – Foreign Direct Investment – EU (25) – Abroad – Stocks (in billion euro)</b>					
	n.a	36,34	52,02	55,56	n.a
<b>Japan – Foreign Direct Investment – EU (25) – Stocks (in billion euro)</b>					
	n.a	60,07	62,91	72,96	n.a

Source: Eurostat

## Executive summary

Both the EU and Japan refer to themselves as ‘soft powers’, using their economic and financial resources and influence to pursue their foreign and security policy objectives.

Between them, they account for 40% of the world’s Gross Domestic Product and both envisage a more significant and visible role for themselves in international politics and security.

Through the December 2001 Joint Action Plan for EU-Japan Cooperation, which identified numerous areas where Brussels and Tokyo could work together more closely, the two sides decided to tackle some of the most pressing issues of international security jointly.

The Action Plan is very ambitious, but the implementation process remains slow and it has so far failed to achieve the intended results. Even though the EU and Japan have recently pledged to speed up the implementation process, political rhetoric and official joint declarations have yet to catch up with the political realities of bilateral cooperation.

Japan’s significant contribution to the pacification and reconstruction of the Western Balkans from the 1990s until now has demonstrated that it can play a meaningful role in European security. Even though Japan is deeply embedded in a security alliance with the US, and hosts 40,000 American troops on its territory, it has, in recent years, made efforts to diversify its regional and global foreign and security strategies, promoting its own concepts of human security, peace-building and peace consolidation.

To what extent the EU will be part of that diversification process depends, not least, on Brussels’ policy-makers’ willingness and ability to endorse and support the Japanese approach.

EU-Japan trade and investment relations are solid and significant but, despite Japan’s recent economy recovery, they have not grown at the spectacular rate of EU-China trade. Persistent obstacles to market access in Japan mean that it is still expensive and complicated for foreign companies to invest in and do business there. European Foreign Direct Investment in Japan is significant, but Tokyo will have to address EU concerns about market access and regulation if it wants to see this increase in the coming years.

This Issue Paper analyses the scope and limits of EU-Japan political, economic and security cooperation, and concludes that it has not yet reached its full potential. Policy-makers in Brussels and Tokyo will have to do more if they are to match some of the media headlines about EU-China relations of recent years.