

Zentrum für Europäische Integrationsforschung
Center for European Integration Studies
Rheinische Friedrich Wilhelms-Universität Bonn



Saadollah Ghaussy

**Japan and the
European Union**

Discussion Paper

C 12
1998

Prof. Dr. Saadollah Ghaussy, born 1933 in Afghanistan, is Tenured Professor at Sophia University, Tokyo, since 1984 and since 1987 also Academic Advisor to the Institut Supérieur de Gestion, Paris, Tokyo Office. He has studied Political Science and Law at the Universities of Geneva and Paris, before entering the Ministry of Foreign Affairs of Afghanistan in 1960. There he was entrusted with different tasks and was member of delegations to international conferences. The period in the Ministry was interrupted by diplomatic missions to the embassies in Pakistan and Tokyo, where Professor Ghaussy stayed at the time of Soviet invasion into his home country in 1979. Professor Ghaussy is honoured with memberships in different international Associations and has received several decorations, not at least for his wide spectrum of publications on foreign policy questions, mainly concerning the situation in Asia.

Saadollah Ghaussy

Japan and the European Union

Japan – E.U. relations have taken new and important dimensions in the decade of the 90s, exactly since the Hague declaration of 1991. If Japan – E.U. relations up to the Maastricht treaty were mainly dominated by economic and trade issues and trade deficit with its visibility and political sensitivity, the period since the Hague joint declaration of July 1991 could be noted as strengthening their cooperation and partnership in different areas. Conscious of their common attachment to freedom, democracy, the rule of law, human rights and a common attachment to the promotion of free trade and market principles, both sides have decided to strengthen their cooperation and partnership in different areas in order to meet the challenges of the future.

1. Overview of E.U. – Japan Relations

Japan, which gained steadily in strategic and economic importance and has become the second pillar of the world economy (after the U.S.), is located in the Pacific Basin. An archipelago of volcanic origins, Japan's total area is 378,000 km², little more than one tenth of the area occupied by the 15 member states of E.U. (3,231,000 km²). It is a mountainous country where settlement is concentrated along the coast. The population density exceeds 1,000 per km². The average population density is 333 per km², triple the E.U. average of 115 per km². Japan has 119 million inhabitants constituting some 2.5 % of the total world population; the E.U. about 373 million (372,099), about 7.0 % of the world population. Although Japan is a country with an ancient civilisation, it is a late comer in

the international scene. Japan started to develop relations with the rest of the world during the Meiji era (1868). It was after the war and since the Treaty of San Francisco of 1951 by which Japan reobtained its sovereignty, that the process was accelerated particularly with its remarkable rise as a trading power.

Compared to the E.U. countries, the main characteristics of Japan could be summarised as a society with no (or very little) social conflicts, and with consensual approach to political, economic and cultural affairs. Today's Japan combines ultra-modern production and management techniques with traditional patterns of culture and social relations, whereas the structural aspects of Japan's economy could be summarised as:

- major world-wide important companies with many small firms acting as sub-contractor to the big companies,
- the vertical integration of the distribution system, which is often reflected in dependence on domestic producers,
- a specific system of standards and a certification procedure which are now in the process of change, and which present obstacles for foreign exporters,
- a banking system more subject than those of the E.U. countries to the supervision of monetary and financial authorities,
- a trade balance which is in surplus since 1981 not only with E.U. but also with U.S.,
- overall, Japan does not play a dominant part in world trade. The rise in its exports has been achieved through concentrating its efforts on highly specialised sectors in direct competition with importing foreign industries.

Having made these brief comments about Japan, we must pose the question: what is the actual relationship between the E.U. and Japan? Japan and the E.U. are major political and economic players on the international scene, as well as partners. Both work for long-term steady relations with

a common sense of purpose and responsibility, sharing the costs and concomitant risks. In connection with this notion of partnership, I would like to say that Japan and the E.U. share basic values in political, security and economic fields and face the same global challenges. Both have a common attachment to freedom, democracy, rule of law and human rights and are committed to an open international economic system based on market principles. Increasing political and economic interdependence and the trend towards globalisation give the E.U. and Japan a common interest in cooperating to maintain and develop a stable multilateral political and economic system. In the relationship of the three pillars of world economy, namely, U.S., E.U. and Japan called the „triangle“, if U.S. – Japan and U.S. – E. U. relations are more elaborate and more cemented through a military alliance, the Japan – E. U. relations, as one side of the triangle, need also to be further strengthened.

I said earlier that the joint declaration signed in the Hague in July 1991 between Japan and what was at that time the E.C. created the framework for governing relations between the two sides and established a firm basis for the intensification of mutual cooperation for the future. The declaration set out:

- The principles and objectives of integrated dialogue and cooperation,
- A framework for high level meetings, for example, annual summit meetings between the President of the European Council, the President of the European Commission and the Japanese Prime Minister. A total of seven summit meetings were held since the Hague Declaration of 1991. The main summits since 1995 are:
 - Paris Summit (1995): oriented more towards trade and economic aspects,
 - Tokyo Summit (Sept. 1996): dealt with trade and cooperation as well as political issues with greater attention to political cooperation as a component of bilateral relations,

- Hague Summit of 1997: emphasised the contribution of internal developments and structural economic reforms in both the E.U. and Japan in shaping the focus of global integration and reflecting the increased role of each partner on the world scene,
- Tokyo Summit (The 7th summit, 12 Jan. 1998) could be summarised as follows: confidence in Asia's long term economic prospects was expressed, but also concern about current Asian financial and stock market crisis with repercussions in regional and global economies; the support of and cooperation with IMF, World Bank and the ADB was emphasised; the mutual commitment to facilitate the peace process in the former Yugoslavia and support the Middle East peace process was affirmed. Both parties confirmed that they would continue to encourage Iran to modify its policies through engagement, and call on Iraq to comply with the U.N. Security Resolutions. They supported U.N. efforts to resolve the conflict in Afghanistan.
- Annual meetings between the Commission and the Japanese government at the ministerial level,
- Various other sectoral meetings.

It can be said that this is constituted an enhancement of the institutional structure.

The Hague declaration, which can be found in the appendix, also set up a broader basis of relations between E.U. and Japan by introducing a political dimension and intensifying the needs of cooperation in other fields. The new E.U. – Japan relations in the last seven years could be summarised around three areas, consisting of the following pillars:

- political dialogue,
- economic and trade cooperation,
- cooperation on common and global challenges.

The political dialogue was enhanced by the European Council in 1995, which assessed the developments and changes in E.U. – Japan relations to match their economic importance with a more active political role. In addition, the substance of the 1991 joint declaration has been further developed by means of a joint press statement.

I would like to say about this political cooperation that E.U. and Japan could strengthen their relations further if there were more successful and harmonious economic and trade relations between the two. In this context one may say from the perspective of the E.U. that Japanese economic deregulation can play a major role and that its positive effect will be the further integration of the Japanese economy into the world economy. E.U. – Japan cooperation is essential in forging the new partnership between Europe and Asia, as illustrated by the Asia – Europe meeting in 1996 in Bangkok (ASEM). Japan is indeed a major driving force in the ASEM follow up on the Asian side.

Before explaining E.U. – Japan political, economic and trade relations, I should add that the introduction of economic and monetary union of E.U. will provide the E.U. with the world largest trading area and a strong international currency to match the economic weight of Europe of the 15. Furthermore, the E.U. is on the way to the formal process of enlargement, which should lead to the inclusion of some rapidly growing economies in Central and Eastern Europe. As a result the E.U. will become still more powerful. As far as I can tell, Japan is also raising its global profile and forging a wider international role, both in political and economic terms. Thus, it has embarked upon a policy of renewal and is changing its economy in a way (deregulation ...) which would allow the country to tackle issues inhibiting its further development as a world political and economic power.

2. E.U. – Japan Economic and Trade Relations and Their Cooperation

a) Economic and Trade Relations

As I said earlier, the E.U., Japan and the United States form the main pillar of the world economy (called the Triangle). Japan, with a population of nearly 120 million and a high per capita income, remains by far the biggest Asian economy. Its GDP is almost 10 times larger than that of China and half of that of the U.S. It accounts for around 10 % of world exports and imports (see the OHP). Although growth in Japan in recent years has been slower than before, even relatively modest percentage growth in an economy of Japan's size continues to generate new trading opportunities for European companies. It must be noted that the E.U. presents a very important market for Japan. Being the world's largest trading economy, accounting for around 20 % of world export and import with a share of 23 % in exports and imports, the E.U. is certainly an important partner for Japan. Furthermore, the E.U. accounts for 30 % of total world stocks of foreign direct investment (FDI), and is a major recipient of Japanese FDI. The two sides cooperate on both bilateral and multilateral trade issues.

The E.U. and Japan have developed their trade relations on a multilateral basis within the World Trade Organisation (WTO) and other international forums. Both parties share a common interest in strengthening the global free trade system, making it work and developing new rules, for example, on competition and investment. Japan and the E.U. have a very strong shared interest in international trade based upon free trade. For instance, the E.U. and Japan in 1996 saved the WTO financial services negotiations when the U.S. felt unable to join, and the deadlock was brought to an end by the parties at the end of last year. The same applies to the International Trade Agreement (ITA) in the field of high technology products and in the context of the so-called semi-conductor agreement, both significant steps towards liberalising world trade. The E.U. also stood firmly with

Japan in the U.S. – Japan car trade dispute in which there was a risk of damaging the WTO and free trade. Furthermore, both Japan and the E.U. have interests in the integration of the People's Republic of China, Russia and other countries into the international trade system.

Japan – E.U. trade relations have improved through dialogue and cooperation. The relations also improved because the E.U. deficit did not dominate all other areas of relations. The issues that have been resolved are quite long and can be listed as: liquor tax, fishing quotas, recording rights and public procurement.

From 1993 onward the E.U. exports to Japan have developed steadily in volume. This is how the E.U. bilateral deficit with Japan fell by over 50 % between 1993 and 1996 (in other words from Yen 3 trillion peak in 1993 to Yen 1.5 trillion in 1996). The ratio of E.U. exports to Japan over E.U. imports from Japan increased from 50 % in 1992 to 78 % in 1996.

In 1997 the E.U. trade deficit with Japan began to climb to 67 % (as in 1994). This deficit can be explained by a sharp increase in Japanese exports, which have become more price competitive as a result of the weakening yen. Indeed, export growth has now become a major component of GNP growth in Japan. The E.U. views persistent surpluses as in part a reflection of continued market access difficulties in Japan for foreign firms. Though the E.U. is concerned again about this increase of deficit, the E.U. reaction is more concerned with deregulation and a deregulation monitoring mechanism that should increase transparency. The E.U. would also like to see economic and fiscal measures that reflate the Japanese economy through domestic demand stimulation. The Tokyo – E.U. Summit of January 1998 refers in its joint statement to the issue, and I quote:

“The E.U. side pointed to the sharp increase in external surpluses in Japan in 1997. The Japanese side explained that this increase is expected to be reduced in the medium to long term through structural reforms leading to strong domestic demand-led growth.”

The question is how to overcome the regulatory obstacles and to bring structural reforms in Japan to increase E.U. exports to Japan? They are summarised as follows:

- From the E.U. point of view, one type of market access restriction in Japan is a regulatory system that governs business. In contrast to the E.U.'s single market, the Japanese economy is characterised by a complex web of regulations that restricts business opportunities. The E.U. expects Japan to remove or relax these regulatory obstacles to allow the European companies to trade as easily in Japan as Japanese companies do in Europe.
- Another component is that Japanese and E.U. views have converged on the importance of deregulation. This is because of greater awareness that deregulation can lead to increased economic growth, meaning lower prices for consumers and reduced costs for industry, thus laying the basis for greater competition. In Japan, the government has taken strong initiatives in this field and is also backed by Keidanren. All the efforts of the Japanese government since 1995 in the field of deregulation as well the Japanese stimulus package of Yen 30 trillion is considered by E.U. as measures to deregulate the Japanese economy. In order to maximise the effectiveness of the Japanese deregulation programme, the E.U. Commission has submitted a list of around 200 proposals to Japan which is under discussion by both sides. Lately some progress has been made in this field and progress also has been made in improving access to the Japanese market through the deregulation dialogue where the regulatory reform is more evident in Japan in such areas as: financial services, automobile, telecommunication, construction, transport services, electrical equipment and cosmetics.
- Efforts are also made to shift Japanese standards towards that of international ones, thus facilitating the process through which European products can be placed on the Japanese markets.
- Market access: An example of a bilateral deal between the Commission and Japan to resolve market access problems concerns Japan's

system of import licensing procedures and import quotas on fish products. This import regime has prevented foreign exporters from market opportunities. There is the possibility that this could lead to actions within the WTO, which is threatening to force Japan to agree on implementing an action programme for the improvement of its import quota management system. This means that there will be a gradual and progressive market opening for E.U. imports and imports in general. As an example of the Japanese tax regime we can cite the case of tax on alcoholic spirits. The problem was that Japanese taxes on many imported spirits were higher than those of the domestic Japanese equivalents. Following a WTO ruling in favour of the E.U., Japan cut taxes on whisky and brandy by 44 % in October 1997.

- Another area of concern for European business is the system or the structure of distribution in Japan. This is an issue which has a major impact on the costs of doing business in Japan. Both parties have been discussing the issue, there is a need for increased cooperation on the Japanese side.
- Concerning the need to accelerate and intensify work on a mutual recognition agreement with Japan and the E.U.: it is obvious that such agreements promote international standards and reduce or eliminate burdensome testing and regulatory requirements and ease the flow of trade in both directions between the signatories. As you might know the E.U. has concluded mutual recognition agreements with U.S., Canada and Australia. It should be pointed out that the absence of such an agreement with Japan is anomalous, given the considerable amount of trade between the two sides.
- A large imbalance of around 8 to 1 between Japanese investment abroad and foreign investment in Japan shows that there are still structural obstacles for foreign companies which seek to do business in Japan.

On economic and trade issues between Japan and E.U., we should not look only at the negative aspects. Lately a large measure of mutual under-

standing and trust has been created between Japan and E.U. In an increasingly interdependent world, characterised by rapidly growing trade and foreign investment, neither the E.U. nor Japan is able to pursue its interests effectively without cooperating with each other.

b) E.U. – Japan Cooperation

Cooperation is the natural and civilised response of nations to address common and global challenges. Cooperation between Japan and the E.U. is a way to increase knowledge of one another and to overcome imbalances. It also facilitates the exchange of expertise and increases understanding between the Japanese on the one hand and European members of the E.U. on the other. Though the exchange of knowledge between Japan and Europe have been taken place for many years now, the new area of cooperation with E.C. dates to the 60s, when E.C. and Japan established consultations at the Foreign Ministers level (1963). The E.C. and Japan established their offices in Tokyo and Brussels, the predecessor of the Europa House in Tokyo, and specially since the 1991 joint declaration in the Hague, which is the framework for cooperation, which can anchor the relationship on a more sound basis, instead of relationship which was dominated by trade and economic issues with its imbalances. The international frameworks established by the joint declaration such as annual Japan – E.U. Summit and high level political meetings contribute to establish a coherent policy of cooperation based on dialogue and problem solving.

What are cooperation activities and the achievements of these two partners?

- Activities of cooperation between E.U. and Japan could be summarised around three basic areas:
 - Promoting common activities with added value. Example: industrial policy, science and technology, research, telecommunications, development aid, environmental protection, dialogue on macroeconomics and financial issues, transport issues, etc.

- Development of strategic policy dialogues in response to global challenges. Example: nuclear questions, humanitarian aid, fight against drugs, combating terrorism, etc.
- Implementation of inter-administrative cooperation. Example: exchange of officials or joint administrative training.
- Achievement
 - Achievement in the field of science and technology includes: collaboration with Japan Atomic Energy Research Institution (JAERI) on nuclear safeguards, exchange with the Japanese Science and Technology Agency as well as with Japanese Society for the Promotion of Science, and fellowship to young researchers for extended stays at Japanese research institutions and universities. A high level Forum on Science and Technology was set up in 1993 between Japan and the E.U. which reviews common activities and coordinates bilateral policy.
 - In the industrial field a range of cooperation has been developed in the decade of the 90s which includes: The E.U. – Japan Centre for Industrial Cooperation, established both in Tokyo and in Brussels. This centre organises training courses and topical missions for E.U. managers in Japan. The European side under the VULCANS programme offers language and in-company training for Japanese engineering trainees in Europe and also in the Tokyo E.T.P. programme. Industrial cooperation has been extended in certain industrial sectors such as car parts and electronics, as well as in certain technology areas such as high performance computer and electronic commerce. In the area of social policy, fruitful dialogues have been taken place between the E.U. and Japan. At the 1996 conference, they agreed to promote cooperation in the field of education and training and to examine the impact of social changes and new technologies on educational and social values. They also agreed to examine joint strategies against drug-trafficking and organised crime. In the area of development cooperation, the two sides have been

cooperating, and there is consensus on certain essential issues, such as human rights, democracy, structural adjustment and the environment. In the field of humanitarian aid, the E.U. has offered to share its experience in working with Non Governmental Organisations (NGOs) with Japan. Such cooperation could be of particular interest to Japan, because Japan is willing to restructure its aid programme. This is a promising area for future cooperation.

Finally, I would like to say a few things about E.U. – Japan political relations and their common security interests.

3. Japan – E.U. Political Relations and Security Interests

a) Political Relations

The 1991 joint declaration provides a firm basis for the development of the E.U. – Japan political dialogue by establishing the framework and objectives for political dialogue.

As it is mentioned in the preamble of the joint declaration, on the basis of a number of shared principles such as the need to promote freedom, democracy, the role of law, human rights and the common attachment to the principle of a market economy, specific joint political objectives aiming at influencing global affairs were established. They reflect the E.U. and Japan's mutual desire for global stability in the post cold war era. In the declaration strengthened cooperation is envisaged in "relation with the countries of Asia Pacific region for the promotion of peace, stability and prosperity of the region". An additional goal is to strengthen the open multilateral trading system and to support the efforts of developing countries, in particular the least developed to achieve sustainable development and political and economic progress, along with fostering the respect of human rights as a major factor in genuine development.

A specific framework for political dialogue is established by the declaration in order to carry out these objectives:

- An annual summit between the president of the European Council, the president of the European Commission and Japan's Prime Minister,
- Biannual meetings between the E.U. foreign ministers and the members of the Commissions responsible for external relations (troika), and the Japanese Minister for Foreign Affairs,
- Biannual meetings between the E.U. troika and Japan at the level of political directors.

As a result, political relations are developing gradually and an exchange of views on Russia, the former Yugoslavia and the security situation in Asia as well as Middle East, Eastern Europe and Central Asia is taking place.

b) Political Dialogue on Global Stability and on Security in Each Other's Regions

It should be said that beside the joint declaration of 1991, there was a joint declaration in 1995. It reflects a deeper change in the way in which Japan and the E.U. perceive their role in today's world. There is no doubt that Japan has lately changed its low profile in international relations and has been trying to play a policy of a higher international profile in political issues, of which the quest for a permanent Security Council membership is just one sign. The E.U. is also slowly coming to grips with the fact that it has to take on, as the E.U., political responsibilities in the world. So far, political dialogue has concentrated mainly on issues within their respective geopolitical spheres but growing interdependence increases E.U. – Japan mutual interest in global stability and in security in each other's regions. From 1995 on I see a dynamization of the 1991 joint declaration.

In concrete action, the E.U. has the Korean Peninsula Energy Development Organisation (KEDO) as a partner to help to avoid nuclear prolif-

eration in Asia. Japan for its own part has made a substantial contribution (\$ 800 million) to the reconstruction of Bosnia and Herzegovina. Japan and the E.U. are cooperating on a number of specific issues like U.N. reform and land mines or development aid to Africa. Another event also boosted bilateral political relations between the two: the ASEM process that started in Bangkok in 1996 and will hold its next summit in April 1998 in London. In the follow up and preparatory meeting of this "Asia - Europe Summit Meeting", Japan and the E.U. have worked closely together to make the political aspect of the ASEM process as important as the economic dimension.

A few words about common security interests: Japan is a member of the OSCE and an observer in the NATO. It is the E.U.'s desire that Japan, though offering to relinquish its role as one of the ASEM coordinators, will continue to perform a leadership role. In Europe, the European Union's enlargement process that will integrate countries of Central and Eastern Europe into the Union. This process is intertwined with NATO enlargement in a complicated way. NATO's enlargement has completely changed the Eastern European geopolitics and has led to Russia's perception that it is isolated. As a compensation or counter measure or may be for domestic consumption, Yeltsin is trying to come closer to China and Japan. This is how I interpret Yeltsin's visit to China and Yeltsin and Hashimoto's meeting in Krasnoyarsk (Siberia) in October 1997 or in ... Izu region (April 1998). Hashimoto needs also success in his foreign policy in general and some possible success in the Northern Territory problem with Russia and the conclusion of a peace treaty between Japan and Russia. I think this is a good move for E.U. and E.U. - Japan relations.

In conclusion, as I explained there are manifold relationships and cooperation between Japan and the E.U. This relationship up to the joint declaration of 1991 was mainly focused on the trade issues and Japan's surplus toward the E.C. (at that time) along with its sensitivity in Europe. Now if we summarise we can say:

On economic and trade issues dialogue and cooperation have replaced competition and mutual crisis. The Japanese surplus was falling since 1991 toward the E.U., but there is again an increase in 1997. Both sides are trying to solve the problem in Japan through deregulation and the establishment of a deregulation monitoring mechanism. With the creation of the EMU in January 1999 there will be not only one currency Euro, but also one monetary policy, whose effect will be felt in other international financial institutions. The Japanese Prime Minister said (January 1998), "Japan's financial big bang is Japan's answer to the Euro." I would like to say that international financial crisis like the present Asian financial crisis need the coordination of Japan and the E.U. responses to this crisis.

We see more and more progress in the field of political dialogue and cooperation through and within the established institutions that I have already explained. Japan and the E.U. have a very strong shared interest in freedom, democracy, rule of law and human rights as well as in free rules based international trade. Some area of common political interest of both sides might lead to further cooperation:

- Recognition of "globalisation" which means more E.U.'s interest toward Asian region and Japan's interest toward Europe.
- Desire to achieve a better balance in Japanese foreign policy which has been and is concentrated too intensively on the U.S. (because of security treaty and European partnership in NATO).
- Acknowledgement that Japan cannot fully attain its foreign policy objectives if it neglects the E.U. because both the E.U. and Japan belong to the rich and secure part of the world.

Appendix [wird in Kürze eingefügt]

ISSN 1435-3288

ISBN 3-933307-12-0



Zentrum für Europäische Integrationsforschung
Center for European Integration Studies
Rheinische Friedrich-Wilhelms-Universität Bonn

Walter-Flex-Straße 3
D-53113 Bonn
Germany

Tel.: +49-228-73-1880
Fax: +49-228-73-1788
<http://www.zei.de>