

# THE EUROPEAN UNION AND JAPAN: PROBLEMS AND PROSPECTS<sup>1</sup>

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## ABSTRACT

This paper analyzes the relationship between the European Union and Japan in the light of their Joint Declaration in 1991. This Declaration was important in that it explicitly introduced a political dimension to their relationship. The paper is divided into five sections. Beginning with a brief review of the historical background to the relationship in the post-World War II period, the paper then proceeds to examine the Joint Declaration's political objectives with reference to events in the international system which contributed to its adoption. The third section examines the chances of achieving these objectives by analysing the difficulties which currently exist within the European Union and Japan relationship before going on to assess the future prospects in the light of these issues. Section five concludes.

The last decade has witnessed an unprecedented level of change in the international community. This new post-Cold War structure reflects trends which have been developing in international relations since the Second World War: increasing interdependence in the international system; the policy-makers' growing concerns over transnational phenomena, such as environmental issues; and the significance of economic wealth as an indicator of political influence. Calculations of power have become more delicate and deceptive than in previous eras.<sup>2</sup>

The last decade has also witnessed the continued rise to power of two economic giants: the European Union (EU) and Japan. Along with the United

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<sup>1</sup> The author wishes to thank officials at the European Documentation Centre at Dundee University, the European Commission Office in Edinburgh, and the Japanese Embassy in London for providing documents and information. The author would also like to thank Anna Macmillan in Japan for research assistance. I alone am responsible for any errors of fact, and for the opinions expressed in this article.

<sup>2</sup> Hoffman, Stanley (1975), "Notes on the Elusiveness of Modern Power", *International Journal*, 30, 184.

States (US), they form the foundation upon which the world economy stands.<sup>3</sup> Nevertheless, the relationship between the European Union and Japan has, for historical and geographical reasons, not been strong. For both the European Union and Japan the relationship with the United States has been the most important factor in their respective foreign policies since the Second World War. There is evidence, however, that this is changing, and that the European Union and Japan might yet find themselves to be strong partners in the international system of the future.

On 18 July, 1991, a Joint Declaration was issued on relations between the European Community (EC), its Member States, and Japan.<sup>4</sup> This Declaration was notable in that it specifically introduced a political dimension to their relationship. The Declaration defined the aims of increased cooperation on political and security issues, as well as the global challenges that both economic superpowers may face.

Arguably, the relationship between the European Union and Japan has always had this dimension, although has concentrated on the politics of economic power rather than on any other factor. The fact that, since its post-war economic revival, Japan has enjoyed a trade surplus with the European Union has long been a matter of concern. Indeed, the Community's trade with Japan remains overshadowed by a significant and persistent bilateral deficit. In 1993 Japan's trade surplus with the EU, for example, was 25.1 billion ECU. Such a large trade surplus easily becomes a political issue. As Hosoya observed when noting the effects that the trade surplus had on the EC-Japanese relationship in the 1970's:<sup>5</sup>

"a situation came about in which the linkage between the international

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<sup>3</sup> Holmes, Peter and Alasdair Smith (1992), "The EC, the USA and Japan: the trilateral relationship in world context", Ch. 10 in David Dyker (ed.), *The European Economy*, 185-210.

<sup>4</sup> The objectives of the Joint Declaration are given in the Appendix at the end of this article.

<sup>5</sup> Hosoya, Chihiro (1979), "Relations between the European Communities and Japan", *Journal of Common Market Studies*, Vol. XVIII, 159-174.

economic phenomena of trade and the monetary system on the one hand, and the domestic phenomena of unemployment, inflation, and recession on the other, was strengthened, while domestic economic phenomena became easily politicised”.

This aspect of the relationship between the EU and Japan has been examined by political and economic analysts alike.<sup>6</sup> Accordingly, this article does not seek to add to this literature, but rather to investigate the form and extent of other political aspects of the relationship: specifically how strong future relations between the European Union and Japan will be and how they may evolve.

With this in mind let us first briefly examine the historical background to present-day EU-Japanese relations. Then in section two we examine the Joint Declaration, specifically those events that led to its issuance and their relevance to the evolving EU-Japan relationship. Although the Joint Declaration ambitiously identifies promising new fields of cooperation between the Community and Japan,<sup>7</sup> problems remain which must be overcome. These are considered in section three. Finally, in section four, we examine the prospects for the relationship in the light of the preceding arguments. Section five concludes.

#### **1. Historical Background.**

When Japan surrendered in August 1945, the allied military campaign, culminating with the bombings of Hiroshima and Nagasaki, had left a country whose military might was destroyed, traditional symbol of power was invalidated, and who for the first time in her history had a foreign army in occupation ruling the country. Japan, moreover, was in a dismal economic condition, two thirds of her large cotton textile capacity was destroyed, and all food and raw materials were now provided by allied occupation forces. American jurisdiction and Japan’s complete subjugation had been determined even before Japan’s unconditional surrender. General Douglas MacArthur was appointed the

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<sup>6</sup> See, for example Chihiro Hosoya (1979), Reinhard Drifte (1983), and Peter Holmes and Alasdair Smith (1992).

<sup>7</sup>A Consistent and Global Approach, Section A2.

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Supreme Commander for the Allied Powers for the Occupation and Control of Japan (SCAP).<sup>8</sup> In fact, the United States' part in the defeat of Japan had been so overwhelming that it could unilaterally diminish post-war allied cooperation and rule Japan as it wanted. The US, for example, generally ignored the views of the eleven-nation Far Eastern Commission and although the Soviet Union, Great Britain and Australia, among others, protested, the war's effects on these same countries were such that they were preoccupied with domestic concerns. Accordingly they could not hope to fulfil the role in Japan that America saw for herself in democratising what was regarded as an anachronistic, traditionally authoritarian society.

The initial American attitude was intentionally retaliatory. Paralleling events in Germany, Japan was to be divested totally of her ability to make war. The so-called Peace Constitution meant that all war industries were dismantled, officials thought to be responsible for Japanese militarism were removed from office and Japanese society was forcibly "democratised". It was the extent of America's occupation of Japan that became the decisive influence on Japan's North American orientation throughout the post-war era and consequently on its developing relationship with Europe during that same time period. Therefore, whilst Europe concentrated on her economic rehabilitation (similarly with the aid of American finance) and on finding solutions to various post-war colonial problems, Japan was increasingly drawing closer to the United States, who by 1948 had begun to see the objective of the occupation as rebuilding Japan into a trusted Cold War ally. With the outbreak of the Korean War in 1950, Washington realised the extent that it needed Japan as an ally to contain the emerging Soviet Communist threat. In 1952, therefore, the American occupation of Japan ended with the signing of the Peace Treaty of San Francisco and ratification of the accompanying United States-Japan Security Treaty. The two treaties basically restored Japanese sovereignty and full diplomatic status. In addition, they formally tied Japan into the United States' alliance structure: an alliance that naturally also included Western Europe. Europe and Japan were allied to the same superpower: but this was the extent of their political relationship.

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<sup>8</sup> SCAP also refers to the occupation bureaucracy as a whole.

It was not until the creation of the European Economic Community (EEC) in 1958, and later the European Free Trade Area (EFTA) in 1960 that the relationship between Western Europe and Japan ended its tradition of mutual disinterest. By this time, Japan was already well on the way to achieving her economic miracle. Indeed, between 1960 and 1970 the Japanese economy grew at an average annual rate of 10%.<sup>9</sup> Nonetheless, Western Europe's new internal trading arrangements were a source of concern to Japan, who feared that continued integration would place Europe's competitive power in a much stronger position and would thereby deprive Japan of third country markets. This concern, coupled with Japan's desire to secure Most-Favoured Nation (MFN) status, led her to pay more attention to her political position in Europe.

The initial EC stance was equally detached: Japan's newfound interest was not immediately reciprocated. In particular, Europe was not ready to accept Japan as an equal either politically or economically: resentment because of the war remained and, in addition, Japanese aggressive trade practices during the pre-war era had not been forgotten. These factors made it very difficult for Japan to obtain the non-discriminatory commercial treatment of the General Agreement on Tariffs and Trade (GATT). Thus, although Japan was accepted into the GATT in 1955, fourteen countries nonetheless still invoked Article XXXV of the Agreement, which provides an escape clause for those countries who do not consent to the application of the Agreement at the time of becoming a contracting party.

By the end of the 1960's, however, Japan's trade surplus with the European Community could no longer be ignored and, coupled with the collapse of the Bretton Woods regime of post-war monetary management and the effects of the oil price rises, Europe, and in particular the European Commission, began to address Japan's growing strength in the international economy.

That this issue remains a bone of contention is without doubt. In its 1992 publication "A Consistent and Global Approach", a Commission review of the European Community's relations with Japan, the EC noted that the strong Japanese economy is a challenge to the international community as a whole.

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<sup>9</sup> Tokunaga, Yoshiro (revised by Martin Brennan) (1992), page 402.

This challenge, it argued, must be met head on. Notably:<sup>10</sup>

“With regard to Japan, the aim should be the full integration of Japan into the international system by making it as open to foreign trade and investment as other advanced economies.”

With these sentiments in mind, we now examine the Joint Declaration.

## 2. The Joint Declaration

Contemporary events have taken us far beyond the mutual disregard that the European Union and Japan maintained only thirty years ago. The atmosphere in which the Joint Declaration was signed was one of political change: an awakening to the realities of a post-Cold War international system that is no longer held to a tight bipolar arrangement. This realization is alluded to in the Joint Declaration’s preamble when the EU and Japan acknowledge that they are:

“aware of the importance of deepening their dialogue in order to make a joint contribution towards .... taking up the global challenges that the International Community has to face”.

The realities of this new international system and their effect on all parties to the Joint Declaration were clearly evidenced by the Gulf War. For Japan, the 1990-91 crisis in Kuwait emphasised two things: Japan’s inability, both for constitutional and domestic political reasons, to commit troops for combat operations abroad (their initial reaction to the crisis has been referred to as one of “paralysed incoherence”<sup>11</sup>); and the definite shift in Japanese foreign policy

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<sup>10</sup> The document went on to argue that “Greater penetration of the Japanese market is vital, not only for the direct economic benefits, but also to give Community industry the opportunity of competing under equal conditions in the most advanced market of the world’s fastest growing region (Asia-Pacific) of gaining direct experience of advanced technology and management practices, and of building lasting relationships with Japanese companies.”

<sup>11</sup> Dobbs-Higginson, M. S. (1994), page 60.

towards a greater involvement in world affairs.<sup>12</sup> Japan eventually pledged a total of \$13 billion to the US military operation in the Gulf War and provided financial and medical aid for those neighbouring countries offering asylum to refugees from Kuwait and Iraq. Although the Government failed to win approval for plans to dispatch Self-Defence Forces (SDF) personnel to the Gulf, a flotilla of six SDF vessels, including minesweepers, was sent to the region in April 1991 (at the same time bolstering Japan's claim to permanent membership of the UN Security Council). This decision seemingly contradicted Article 9 of Japanese Constitutional Law, which forbids Japan to use military force in resolving international issues, and marks a change from the Japanese postwar foreign policy of not utilising military power abroad.<sup>13</sup>

For the European Union too, the Gulf War prompted greater efforts to develop a joint political approach to international tensions, part of which found its voice in the moves towards the common foreign and security policy laid down in the Maastricht Treaty. The European Community was heavily criticised for the timing and inadequacy of its response to the crisis in the Gulf; a response which appeared to indicate that there was insufficient co-operation and coordination among Community Member States. The war against Iraq reminded Europeans that their security could be complicated by conflicts beyond the Continent (many European countries continued to rely on imported energy, petrodollar investments and Middle East commercial contracts).<sup>14</sup> In the waning days of the Thatcher government in Britain, even the then Foreign Secretary, Douglas Hurd, was forced to admit that the Gulf crisis revealed that security cooperation agreements were needed, a theme that became more pronounced in the United Kingdom (UK) after Prime Minister Major took office.<sup>15</sup>

For the European Union and Japan, then, the Gulf crisis indicated that

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<sup>12</sup> Yamazaki, Akira (revised by Yasuhiro Tase) (1992), page 399.

<sup>13</sup> Itoh, Makoto (1994) page 49.

<sup>14</sup> Pugh, Michael C. (1992), page 12.

<sup>15</sup> George, Stephen (1991), page 224.

economic wealth is not necessarily an indicator of ability in dealing with international tensions. In the final analysis what the crisis in the Gulf uncovered was that in the negotiations which attempt to solve such international disputes, no power is willing to take full responsibility. Therefore negotiated solutions involving a number of players are the only answer. This was noted in the first and third of the objectives of dialogue and cooperation in the Joint Declaration (see Appendix).

In addition to the Gulf War, prospects for a new international order, particularly involving the European countries, were jeopardised by the deepening crisis in the Soviet Union. The two crises were interrelated in several ways. As Pugh (1992) notes, a preoccupation with domestic affairs weakened the Soviet leadership's ability to play anything more than a diplomatic role in the Middle East. Its self-appointed function as peacemaker in the Gulf whilst concurrently breaching the Helsinki Accord in the Baltic republics made the Americans, and to a lesser extent the Europeans, wary about the Gorbachev regime's trustworthiness in foreign policy generally.

For the European Community this uncertainty in Central and Eastern Europe led them to pursue a coordinated foreign policy in concert with an external economic policy response. The EC responded to widening political reforms in Eastern Europe with economic assistance measures that increased access to EC markets and provided financial aid such as technical assistance and balance of payments support. The Commission proposed that this approach should be extended to the former Yugoslavia, when conditions there become appropriate, for which further provision must be made in EC expenditure plans.

For Japan, the events taking place in Central and Eastern Europe were also important. Financing the development of these areas imposes an enormous strain on the savings-investment balance of the world economy. Japan has a substantial savings reserve which, if appropriately channelled, could reduce the undesirable pressures on interest rates. However, the amount of funds destined for Japanese overseas investment is in decline, therefore Japan cannot take on the role of world banker alone, but rather needs to work in concert with powers such as the European Union, a strategy which the European Union would also prefer given their interests in the Central and Eastern European area.



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In the catalogue of changes which we have examined so far, we have not mentioned the one player whose changing role in the world system is set to effect the relationship between the European Union and Japan more than any other: the United States. Much has been said about the changing position of the United States. America's hegemonic presence in the international political economy has affected the strategies and foreign economic policy of all advanced industrial states since 1945.<sup>16</sup> Some analysts have asserted that the fears generated by the obvious erosion of America's economic predominance have been mooted for some time. Some scholars, labelled "declinists" by Samuel Huntington, are persuaded of the irreversibility of present trends in favour of Europe and Japan. However, not all analysts agree that the posited relative eclipse of the United States is permanent. Indeed, some authors have recently argued that America's apparent decline, as measured by various indicators of comparative economic performance, has either been greatly exaggerated or else can more or less be easily corrected. Yet even most of these so-called "revivalists" concede that the balance of power among western economies has in fact grown more diffuse and that this spreading of multinational influence is almost certain to make the management of commercial and financial affairs more difficult.<sup>17</sup>

These views on future power diffusion are also present within the American establishment. As Dana Rohrbacher observed earlier this year when the House of Representatives drafted legislation to limit the role of US forces in UN peacekeeping missions:<sup>18</sup>

"In the post-cold war world we will no longer require our people to carry an unfair burden for the rest of humanity."

Although a policy of isolation would be an extreme one, it could be argued that

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<sup>16</sup> Katzenstein, P. (1977) in George T. Crane and Abla Amawi (1991), page 193.

<sup>17</sup> Cohen, Benjamin J. (1991) in Jeffrey A. Frieden and David A. Lake (1995), page 522.

<sup>18</sup> Ogden, Christopher (1995), page 21.

the American stance is a more multilateral one than previously: willing to act overseas in multinational coalitions, willing to assign American soldiers to UN operations, but not ready to bear the total costs - economic, political, or human - of any foreign policy operation.<sup>19</sup>

An American retreat leaves in its wake a political void to be filled: a fact that became more obvious around the time that the EC-Member States-Japan Joint Declaration was issued. Hardly surprising then, that the Joint Declaration called for the encouragement of negotiated solutions to international and regional tensions; alongside enhanced policy consultation and, whenever possible, policy coordination on international issues effecting world peace and stability.

There is, however, still the issue of the dominant role of the United States in the United Nations and the Security Council's increased influence, must not appear to the rest of the international community (particularly non-Western states) to be a lesson in double standards (i.e. pulling out of a more obvious role whilst still trying to maintain the major influence in multilateral organisations). The end of the Cold War has meant that the traditional bipolar security considerations are no longer relevant, and more states are vying for best position within this new system. The US cannot withdraw from a more obvious role only to still hanker after the major influence in international organisations. Thus the management of interdependence is a key problem which all advanced industrial states have confronted in the postwar international political economy.<sup>20</sup> For this reason, it is important that the European Union and Japan gain more of a voice in international organisations to counter the role of the United States. This would therefore clearly refute the argument that collective security is not what its name suggests, but rather is a defence of American interests under the cloak of collective action.<sup>21</sup>

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<sup>19</sup> *ibid.*

<sup>20</sup> Katzenstein, Peter J. (1977) in George T. Crane and Abla Amawi (1991), page 187.

<sup>21</sup> The observation that the EU and Japan are searching for a larger role in international negotiations is not a new one. For example, when the European Monetary System was formed in 1979, one of the political considerations behind its inception was a wish, particularly on the part of West Germany, to have more

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This changing political situation left by the fall of the bipolar system is also evident in the aid provision expressed in the Joint Declaration's objectives. The European Union has a well-developed aid programme which it has used as a foreign policy tool to gain a foothold in the international political system. For Japan, in particular, expansion of its aid programme has been an important mechanism through which it has both increased its international role, while helping to recycle some of its current account surplus. Thus, Japan has already carefully strengthened her aid to those areas of the world which are thought to be of importance to the maintenance of peace and stability (for example, Pakistan received 32 billion yen in the wake of the Soviet invasion of Afghanistan). In addition, Japan continues to direct aid towards Eastern Asia, a policy which complements Japanese direct investment in the region.<sup>22</sup>

As Broad, Cavanagh and Bello (1990-91) noted, Japan's displacement of the United States as the world's biggest aid-giver uncovers perhaps more compelling questions about development efforts in the next decade. Japan stands at a crossroads: it can either copy United States policy - ally with local elites and subordinate development policy to security policy; or practice enlightened leadership by separating security from development and in the process open up the chance for a quantitative change in the nature of North-South relations.

The concerns which the Joint Declaration addresses, then, are broad and well-founded but there is some concern that things are not proceeding as quickly as they should. Since the Declaration was issued, one observer comments:<sup>23</sup>

"Progress on political dialogue has so far fallen short of expectations. There has been difficulties for reasons of timing in keeping to the schedule of meetings, and

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independence from the United States. Similarly, Japan's desire for a stronger voice in international affairs has been witnessed in the growing trilateralism between Europe, North America and Japan which took shape, in 1973, in the form of the "Trilateral Commission". In addition to this, the OECD has, since its inception, extended its competence well beyond economic affairs. Thus Japan, as part of this, is very much a member of the Western inner circle.

<sup>22</sup> For example, although there were difficulties at first with the relationship, Japan has, since 1977, emerged as the major external patron of ASEAN.

<sup>23</sup> See "A Consistent and Global Approach".

when they have taken place they have shown that the dialogue falls behind that between the Community and the United States in intensity, whereas the two should be more nearly on the same level."

With this realization in mind, we now turn to some of the problems which the European Union and Japan may have in attempting to further their relationship in the future.

### 3. Problems

How is one to assess the relevance of the Joint Declaration to the relationship between the European Union and Japan? Depending upon one's point of view, the Declaration represents either a timely, if modest, move towards the deepening of a relationship which could fill the void left by the United States or simply the signalling, by the European Union in particular, of a readiness to assume a larger role in international affairs.

At first sight, the latter view appears more persuasive. For example, in the period from 16 March to 20 April this year the European Union expressed its intention to reinforce economic and political relations with South Korea; agreed to develop a close dialogue on trade matters with the Ukraine; stated a desire for increased cooperation with Yemen; announced a new momentum in relations with Turkey; and approved draft Directives for negotiations with MERCOSUR, (the common market of Argentina, Brazil, Paraguay and Uruguay).

We are faced, then, with the possibility that the Joint Declaration does not have any particular political will behind it, but is just part of the process of increasing the EU's reputation and credibility in international affairs. In other words, the more foreign policy initiatives which the European Union participates in, the more it will be seen to have a significant foreign policy role and hence the more credibility will be given to its future political stance. Taking part in this type of signalling behaviour also mitigates the lack of progress which has been made towards the common foreign and security policy, by providing evidence that the EU is still concerned with having a common foreign policy stance.

This view is also persuasive when we consider the problem of the continuing imbalance in trade between the European Union and Japan. Japan's position vis-

a-vis the European economy is a strong one, and could become stronger as, in particular, demand in the countries of Central and Eastern Europe becomes greater. Japanese success has lain it open to the accusation of selfish and aggressive trading behaviour. Japan's postwar recovery, however, has been due to a number of factors: cultural differences, which naturally give the Japanese market certain advantages,<sup>24</sup>; the careful targeting of industries it specialises in; and maintaining international competitiveness by an extensive use of government institutions and subsidies. Nonetheless the success of Japanese business makes the accusations difficult to refute.

Japan's trade surplus with the EC, which had been declining since 1989, began to expand again in 1991. The main causes of this trend were an increase in Germany's imports in 1991 to meet the expanded demand brought about by unification, an increase in the value of Japan's exports on a dollar base as a result of the appreciation of the yen, and a reduction in Japan's import of deluxe cars and paintings following the collapse of its bubble economy. In trade between Japan and the EC, the main exports from Japan are passenger cars, office equipment, and other manufactured products, while consumer goods make up a larger share of the EC's exports. To improve the trade imbalance between Japan and the EC, it will be important for the EC to improve its competitiveness in the area of manufactured goods with higher added-value and to increase interest in Japan. Japanese direct investment in the EC increased spectacularly in the second half of the 1980's, probably as a result of the positive entry of Japanese countries into the huge EC market in response to the steady progress of integration following the declaration of the establishment of the European single market and

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<sup>24</sup> This can be explained more easily with reference to the Japanese concept of *shafu*, or company spirit. For example, the average Japanese worker works between 200 and 500 hours per year more than workers in the rest of the industrial world. Fewer than 20% of full-time workers get two-day weekends. Ford has two-thirds more workers and produces half of the cars that Toyota manufactures. About one-third of Japanese workers are guaranteed that once hired, they will not lose their jobs until they are "retired" in their mid-fifties. At this point they typically accept more difficult (and usually less desirable) assignments abroad or live off of personal savings until their pensions start at 65 (thus stimulating the Japanese savings rate throughout the life-cycle).

fears about the growth of protectionism in the EC.<sup>25</sup>

This degree of success gives European policymakers a certain common perception of Japanese foreign policy in that the European Union considers that all Japanese foreign policy is subordinated to the creation of an even stronger Japanese economy. As noted by Emmott:<sup>26</sup>

“When people think of Japan’s foreign policy, they almost inevitably think of Japan’s economic policy. This is because it is widely assumed that Japan’s foreign policy is merely a tool to achieve its economic strategy.”

The success of the Japanese economy has been such that when policy-makers have considered their relations with Japan, they have considered that Japanese economic security is that government’s only political consideration. This has become known as the “parallax” phenomenon,<sup>27</sup> where one of the parties involved in a problem approaches its solution from, for example, a political point of view, while the other party approaches it from an economic point of view. It has most often occurred in connection with economic problems between developing and highly industrialised countries and although there is a difference in degree, this parallax phenomenon is to be seen in relations between Japan and the EU. It is also one reason why, in the past, the politicisation of the relationship between the European Union and Japan has been concerned with trade rather than any other political or security matters. However, the orientation of EU policy towards Japan has not been helped by the confusion about the traditional Japanese post-war pacifist stance.

At the Second “Europe-Japan” Aspen Conference, held in Les Baux de Provence in 1992, some of the European participants:<sup>28</sup>

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<sup>25</sup> Ministry of Foreign Affairs (1993), page 3.

<sup>26</sup> Emmott, Bill (1992), page 50.

<sup>27</sup> Hosoya, Chihiro (1979), page 164.

<sup>28</sup> Iwasaki, Toshio, (1991), page 26-27.

“showed their understanding of Japanese renunciation of the use of force to resolve international disputes based on Article 9 of its Constitution, but expressed the view that while Japan needed its global vision to protect the peace of the world, the Japanese people were rather unconcerned about world peace.”

This problem of perception, however, is not only on the European side. For Japan, there is the fact that in dealing with the European Union, she often does not consider that negotiations are taking place with a single monolithic unit. This has been attempted to be addressed, in particular by the Commission who has played a leading role in demonstrating the political dimensions of the EU-Japan relationship. For example, one of the policy dynamics in the politicisation of the trade conflict was the Commission’s desire to become the only negotiating partner in matters of external trade as stipulated in Article 113 of the Rome Treaty.<sup>29</sup>

Despite these efforts by the Commission to become the main negotiating party, Japan still maintains bilateral trading links with European Community countries which have often been used to benefit Member States national interests, rather than the interests of the European Union itself. Indeed, far from the Member States playing less of a role in negotiations with Japan, in some ways the Declaration seems to be symptomatic of the growing links between the Member States and Japan.

For example, in the past there was not much private-level exchange between Japan and Italy. However, in October 1989 business leaders from the two countries established the Japan-Italy Business Group with the aim of deepening mutual understanding and promoting cooperation between Japanese and Italian business people. Already this has attracted the participation of representative enterprises from both sides and has achieved significant results through specific actions, such as the building of a system of information exchange between

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<sup>29</sup> Specifically, “Where agreements with third countries need to be negotiated, the Commission shall make recommendations to the Council, which shall authorize the Commission to open the necessary negotiations; The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it.

interested companies, the establishment of working committees for market analysis, and other measures designed to strengthen ties.<sup>30</sup> This increased level of interaction with Member States naturally causes problems for further European integration, as it is one more example of states wanting to maintain their sovereignty in the face of the growing power of the European Union. Europe, then, is still wrestling with its own constitutional form, a process that consumes most of its political energies and does not help her to smoothly establish any future relationship with an important foreign power.

If these are the problems, what then are some of the prospects for European Union/Japanese cooperation?

#### **4. Prospects**

Despite these problems, the fact that the most recent statement by the Commission on relations between the European Union and Japan argues that the EU should welcome and support Japan's growing role in international affairs is a positive one (although it does beg the question: why, so long after the Joint Declaration was issued, are the objectives for change in the relationship so remarkably similar?). Once again, it proposes a series of steps for Europe to deepen its ties with Japan and coordinate positions on international issues through more systematic dialogue, including more regular summits and contacts between officials to identify areas for cooperation. In the context of an agreement on the future restructuring of the UN system, including an enlargement of the Security Council, the Commission considers that the Japanese bid for a permanent seat on the Security Council should be supported by the EU.<sup>31</sup>

Prospects, however, for the relationship remain dependent on the trends in international relations. When we consider the relationship between the European Union and Japan, we see a chance for real harmony of interaction, but we also see two areas of the world who must face individual issues and challenges. Before we can hope to evaluate the prospects for a closer relationship between the European Union and Japan, then, we must consider some of the

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<sup>30</sup> Ministry for Foreign Affairs, Japan (1993).

<sup>31</sup> European Commission, WE/9/95.



issues which they face.

The first issue is concern over the future of the Japanese and European economies. The more Japan is integrated into the world economy, the more vulnerable she is to the vagaries of it. Japan has built up her role in the world by having a strong economy so obviously requires her economy to remain on a firm foundation if she is to achieve her much sought after place on the international stage. However, the recession in Japan has lasted longer than average and, because of structural instabilities, has been more obstinate in the face of macroeconomic action than previous downturns.<sup>32</sup> At the same time, the economy has to deal with the problem of currency appreciation - which is constraining the export sector and reducing growth potential. To the extent that the appreciation of the yen is caused by low imports and a growing external surplus, sustainable long-term growth requires not just a macroeconomic response but also a wide-ranging programme of structural change to remove remaining distortions and help in reducing the imbalance in the current account.

Samuel Huntington suggested that "the baton of world leadership" next century may pass from America not to Japan, or China, or Russia, but to a European federation.<sup>33</sup> This is because a politically cohesive European Union would have the population, resources, economic wealth, technology, and actual and potential military strength to be the preeminent power of the twenty-first century. A federation of democratic, wealthy, socially diverse, mixed-economy societies would be a powerful force on the world scene. However, there are potential problems for Europe in attempting to achieve this goal. For example, we have yet to witness the full extent of the effects on European integration of German reunification. As a result of this reunification, European companies could turn inward rather than engaging in global activities. This anxiety over a possible Fortress Europe leaves Japan wondering whether European business executives are ready to shoulder the burden of investment from a long range viewpoint in making direct investment in Japan, just as their Japanese counterparts do in their direct investment in Europe. In addition, unless there is

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<sup>32</sup> See Itoh (1994) for a description of Japan's economic position.

<sup>33</sup> Kennedy, Paul (1993), page 258.

a change in European policy, by the end of the century there will be some degree of economic and monetary union in Europe. Such an enterprise brings, however, possible adjustment difficulties which may effect the European economy at a time when a further widening of European integration is on the cards.

Another issue in the prospects for the relationship is the rise of regional economic groupings. Will Japan herself form the core of a regional trading bloc in the future? With the decline of US hegemony and the collapse of bipolarity, many observers are predicting the emergence of a tripolar trading system centred on Japan in Asia, the US in North America, and Germany in the European Union. Many observers are further predicting that this regionalisation of trade will slow the growth of the global economy and threaten the spirit of multilateralism embodied in the GATT. There are, however, problems with this Asian bloc scenario.<sup>34</sup>

First of all, the relationship between the major players in the East Asian region has, historically, been an adversarial one. In this respect, the situation in East Asia differs fundamentally from, for instance, Western Europe after World War II when the impetus for integration came from political and economic collapse. Secondly, the East Asian countries have very different levels of protection and are at very different stages of development, suggesting that the distribution of gains from a regional trading arrangement would be uneven. Third, there are many players in the East Asian region which makes finding a basis for agreement very difficult.

In addition to these internal issues, there are also external hurdles which must be tackled before an East Asian trading arrangement could become operational. Japan has repeatedly been the target, of the US in particular, of unilateral policy actions, including voluntary export restraints and structural impediments initiatives. Other countries in the region could face the same immense risks in supporting a bloc that may divert trade from the United States. Of course, a regional trading arrangement involving Japan does not have to be quite so rigid but the idea of open regionalism is not always a positive one.

In addition to this, there is uncertainty over future economic arrangements

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<sup>34</sup> See Arvind Panagariya (1994) for a very clear exposition of the issue of a possible East Asian trading bloc.

in the area with regard to the position of China. Over the past generation China has made large cuts in military expenditure and has systematically reduced other forms of political entanglement. In this way the country can focus its resources and its leaders' attention on economic development. The result of these policies has been economic growth so fast that China may become a formidable power within a comparatively short period of time.<sup>35</sup> There are, however, risks involved: in this scenario one risk derives primarily from other countries' reactions to the Chinese takeoff. Like the Japanese, the rest of Asia is happy to see China's economy growing and happy to see China stable for once, but potentially very unhappy at China's becoming a dominant regional power. In addition, there could be problems if the USA loses its capacity to mediate Pacific Asia's conflicts and buffer the huge bursts of energy created by its development. The sublimation of national ambitions into domestic economic development has created a powerful trend towards more peaceful relations, but that trend would have been interrupted time after time without the moderating diplomacy of Washington backed by the indispensable presence of American military forces. The question is: if the future role of the US is going to be a less obvious one, how will Europe and, in particular, Japan cope with these huge power changes in the Asia-Pacific region?

## 5. Conclusion

There is no doubt that we are living in an era of profound change and that, to a large degree, the future of the relationship between the European Union and Japan is bound up in this change. A lot of the debate on the future of the relationship centres around who will be the leader in the international system to emerge in the next fifty years.

We could argue that in spite of its economic and technological prowess, Japan will not have the status in the international system to play any significant global, political or military role in the foreseeable future; and, despite far-reaching integration, the EU will have the fundamental deficiency of not being a sovereign unit in the international system, an issue which will, hopefully, in

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<sup>35</sup> Overholt, William H. (1993).

part be addressed by the Common Foreign and Security policy.

Does it matter that a political relationship does not seem to be particularly forthcoming when there is near-universal agreement that economic issues will be near the top of the post-Cold War international agenda? Each country is faced with a wider array of disrupting economic forces, but each has less capacity to control such disturbances.

Perhaps it is simplest to view European Union-Japanese relations as having a fixed sum outcome that requires a compromise "cutting of the cake", but with outcomes from which both sides can gain through functional cooperation that will produce a larger cake.

For the European Union and Japan, it is important that they see their interests are to make a larger cake rather than fight over the crumbs left by the vagaries of an interdependent world system.

## Appendix: The Joint Declaration

### OBJECTIVES OF DIALOGUE AND COOPERATION

The two Parties will set out to explore together areas of possible cooperation, including, where appropriate, common diplomatic action. They will endeavour to strengthen their cooperation in a fair and harmonious way in all areas of their relations taken as a whole, in particular with respect to the following:

- promoting negotiated solutions to international and regional tensions and the strengthening of the United Nations and other international organisations;
- supporting social systems based on freedom, democracy, the rule of law, human rights and market economy;
- enhancing policy consultation and, wherever possible, policy coordination on the international issues which might affect world peace and stability, including international security matters such as the non-proliferation of missile technology and the international transfer of conventional weapons;
- pursuing their resolve for equitable access to their respective markets and removing obstacles, whether structural or other, impeding the expansion of trade and investment, on the basis of comparable opportunities;
- strengthening their dialogue and cooperation on various aspects of multifaceted relations between both Parties in such areas as trade, investment, industrial cooperation, advanced technology, energy, employment, social affairs and competition rules;
- supporting the efforts of developing countries, in particular the poorest among them, to achieve sustained development and political and economic progress, along with fostering respect for human rights as a major factor in genuine development, with due regard for the objectives set by international organizations;
- joining their efforts in meeting transnational challenges, such as the issue of environment, the conservation of resources and energy, terrorism, international crime and drugs and related criminal activity, in particular the laundering of the proceeds of crime;
- strengthening cooperation and, where appropriate, promoting joint projects in the field of science and technology with a view to contributing to the promotion of scientific knowledge which is essential for the prosperity of mankind;
- developing academic, cultural and youth exchange programmes aiming to increase knowledge and improve understanding between their respective peoples;
- supporting, in cooperation with other States or organizations, Central and Eastern European countries engaged in political and economic reforms aimed at stabilizing their economies and promoting their full integration into the world economy;
- cooperating, in relation with the countries of the Asia-Pacific region, for the promotion of peace, stability and prosperity of the region.

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