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# THE POLITICS OF EU-JAPAN ECONOMIC RELATIONS

*- How different policy paradigms prevent cooperation.*

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## Introduction

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The European Union is widely perceived as being an economic superpower but a political dwarf. It represents one of the largest economic markets and owns a great share in world trade and investments. At the same time, the European Union struggles to get its stake in international power politics. Oftentimes it is EU Member States which act in the global arena. At the Community level, there is hardly any actor which could claim extensive authority over foreign relations. One of the few exceptions is trade policy which the European Commission has almost sole competence for. While there are certain limitations to that, the Commission has been granted the right to conclude agreements on trade issues with third parties. This competence makes the Commission the foremost partner to deal with in international trade relations.

Among others, Japan has evolved into a partner which the EU holds regular high-level meetings with. As another economic superpower<sup>1</sup>, Japan is not only a competitor but also an attractive market for European goods and services. Nevertheless, Japan used to pursue a rather protectionist economic foreign policy to the detriment of the EU and the United States. Intensive pressure particularly on part of the latter could not substantially change the situation. Due to changes in the international environment and the apparent failure of a policy of confrontation, the European Commission initiated a process of political cooperation in The Hague in 1991. Up until now, there have certainly been developments in trade negotiations between the EU and Japan. However, it remains to be seen whether this is in fact progress towards closer cooperative economic ties and not just idle notion.

In this work, I will argue the framework for a more balanced EU-Japan cooperation with respect to trade is having a hard time due to fundamental differences in foreign economic policy paradigms. For that matter, I will make use of two dominant perspectives in international relations theory: realism and neoliberal institutionalism. This is particularly interesting since the economic side of realism has often been overlooked and primarily been associated with power politics concerning military security (Heginbotham & Samuels, 1998). Here, it is worth noting that the political environment has direct consequences for the economic environment, and vice versa. This is because political objectives lead to rivalry or peaceful cooperation which in turn creates the setting for economic potentials to flourish. Hence, nation states are rule-setters for the regional and global economy. At the same time, “economic and technological forces also shape the policies and interests of individual states and the political relations among states” (Gilpin, 2001, p. 24). Accordingly, it is an interdependent relationship that is to be observed.

A rather realist view in Japan as opposed to a neoliberal institutionalist European Union is supposed to prevent both from building a fruitful relation of trust and cooperation. That is, Japanese focus on relative gains on the one hand and EU focus on absolute gains on the other may not be as supportive an environment for closer economic ties. As economic relations are already in sharp asymmetry – i.e., Japanese business is already fully established in Europe, but not *vice versa* -- the possible outcome of cooperation is very limited. This is based on the assumption that a relative gains-

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<sup>1</sup> Like the European Union, Japan has been said to be an “economic giant and political pigmy” (Heginbotham & Samuels, 1998, p. 189).

oriented approach eliminates the possibility of change in relative power. This, however, would be essential if it was for greater fairness in trade and investment between Japan and the EU. Hence, one may expect the progress to be limited. It might also turn out that Japan gains disproportionately from intensified cooperation, thus, the EU will eventually be worse off. All in all, we shall see whether the relationship has been fruitful thus far, and what the future is likely to bring about based on theoretical considerations and insights gained.

The greater part of this work will be developed by means of primary and secondary literature such as official documents and academic articles. It goes without saying that data will have to be incorporated for it is the economic relation between the EU and Japan that is to be shed light upon.

In the following, I will subdivide the discussion into two parts. In the first part, I will lay the groundwork by defining relevant terms used in this work, and presenting theories and ideas regarding state cooperation and international trade. In addition, two of the most prominent international relations theories, realism and neoliberal institutionalism, will be discussed in more detail. In so doing, Grieco's work (1990) will give guidance. In addition, the general setup of economic relations between the European Union and Japan shall be discussed. This includes an analysis of relevant economic indicators.

On the basis of theoretical findings, i.e., similarities and sharp differences between the two theories, I will try to find evidence in favor of one or the other regarding the foreign economic policies of the European Union and Japan. This shall be conducted by focusing on selected aspects such as:

- power gains
- reluctance to power losses
- strategic policy goals
- multilateralism

After having derived three hypotheses, the relation between the European Union and Japan shall be central to the second part of this work. To begin with, a brief historical overview of EU-Japan relations shall provide the necessary background information on the subject. Subsequently, the current economic situation will be of interest. Furthermore, the process of the political dialogue shall be described. This is to answer the hypotheses as derived in the first (theoretical) part.

# 1. Theory: States in the World Economy

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In the following, an introduction into trade theory will provide a general understanding of the subject of discussion. This will lead to additional theoretical considerations about state behavior beginning with a brief definition of relevant terms in order to establish a common starting point. More in-depth discussions on international relations theory will conclude this chapter.

## 1.1. Trade Theory: Notions and Principles

In international trade theory, certain ideas and theorems are generally accepted. It would go beyond the scope of this work to verify each and every one of them. Only the most relevant to this work shall be touched upon in this part.

First of all, countries differ in their natural resources and environments which give them an advantage over others of some form or another. At best, a country enjoys a considerable absolute advantage if it either produces a larger amount of a certain good or service with the same amount of inputs, or requires a lower amount of inputs for the production of the same amount of a certain good or service (Grieco & Ikenberry, 2003; Ball *et al.*, 2008). As one of the most important principles for trade between nations David Ricardo (Brawley, 1993; Gilpin, 2001; Grieco & Ikenberry, 2003; Ball *et al.*, 2008) derived the concept of comparative advantage. According to that, a country which did not enjoy any absolute advantage in the production of two or more goods or services would still be able to create a comparative advantage by means of specialization in producing the good or service with the lowest absolute disadvantage. Ricardo further argued that “[b]y trading the goods each country has a comparative advantage in producing, the total quantity of goods produced could be raised, allowing total consumption to increase” (Brawley, 1993, p. 7). Hence, under normal conditions, free trade is mutually beneficial for countries. Yet, as we shall see, trade theory does not necessarily match trade practice.

In support of Ricardo’s argument, the Heckscher-Ohlin theorem considers different factor endowments among different nations and tries to explain trade preferences. That is, countries trade on the basis of their given environments, meaning products requiring considerable amounts of the abundant factor of production will be exported while products requiring greater amounts of scarce resources are likely to be imported (Grieco & Ikenberry, 2003; Ball *et al.*, 2008). Accordingly, countries naturally specialize in some form or another. Here, one may note that factors of production range from capital to natural resources through to labor quantities. One may think of the current division of labor with industrialized, capital-abundant Western nations trading capital and highly capitalized goods (i.e., high-tech products which required great amounts of capital for development) for cheaply produced goods of lower value with the developing world. This form of specialization can lead to a re-organization of the domestic economy which is more closely analyzed by the Stolper-Samuelson theorem. It “explores the effects of the opening of a country to trade on the returns and hence the incomes of the factor owners” (Grieco & Ikenberry, 2003, p. 47). According to that, increased import of

the formerly scarce and therefore precious factor of production would lead to a decrease in relative returns (Brawley, 1993). If it was for a capital-abundant country, labor would be the scarce resource. By means of importing labor as embodied in products and services, the price of domestic labor would be bid down. As a matter of course, the scarce factor of labor in that case would very likely be opposed to free trade as it would lose its elevated position for the domestic economy (Brawley, 1993; Grieco & Ikenberry, 2003).

Depending on the influence of the scarce-factor-intensive sector, protection mechanisms such as tariffs and other barriers to trade are more or less likely to be erected. A country embracing free trade “is necessarily a country in which the abundant-factor-intensive sectors strongly influence the formation of the foreign economic policy. Only in countries in which foreign economic policy is controlled by the scarce-factor-intensive sectors is free trade rejected ... and even in these situations the country has still an interest in raising exports of the abundant-factor-intensive goods” (Brawley, 1993, pp. 8-9).<sup>2</sup> This inevitably leads to ambiguous practices of some leading economies, such as the European Union, the US and Japan in e.g., agriculture; pushing for global trade liberalization while maintaining certain protection mechanisms in selected sectors. These often represent highly contentious issues as countries try hard not to lose out on competitors. In worst case, countries engage in trade wars leaving both sides worse off (Mastanduno, 1991; Brawley, 1993). To conclude, “economic interests are determined by countries’ economic attributes but also by countries’ domestic political systems” (Brawley, 1993, p. 202).

Another issue of international trade is taken up by Conybeare (1988). He describes three dominating trade bargaining relationships:

1. peaceful trade relation between economies at arms’ length
2. trade relation between two large countries
3. asymmetric relation between a larger and a smaller power

The first type usually describes rather harmonious relations between two states being at arms’ length yet also highly specialized. The relationship is such that both are interdependent. That is, the best case scenario offers both parties high individual as well as joint gains (Conybeare, 1988). By the same token, a disruption in trade would leave the partners worse off, resulting in high individual and joint losses. As for this work, that is hardly the case between the European Union and Japan.

The second type of Conybeare’s, however, may be more suitable for the units of analysis in this work. That is, two large economies try to get their stake in international trade. This involves imposing tariffs in order to increase the maximum amount of income (Conybeare, 1988). But since this is rarely a one-sided act, both parties will eventually lose compared to the outcome under free trade. This type works best in typical game theories such as Prisoner’s Dilemma and others.

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<sup>2</sup> For further clarification of the ambiguity of interests see Brawley, 1993, p. 13: “Republics have relatively open domestic markets and greater interests in participating in liberal trading subsystems: capital-abundant republics follow policies of free trade in capital-intensive goods and services while protecting the domestic market for labor-intensive goods and services; labor-abundant republics follow policies of free trade in labor-intensive goods and services while protecting the domestic market for capital-intensive goods and services.”

Finally, Conybeare mentions a third alternative: a relationship between two unequal partners, hence an asymmetric relationship. Therein, a smaller power is usually not to choose whether to follow the larger power or not. That is, imposing tariffs either unilaterally or as a means of retaliation would make the former lose out (Conybeare, 1988). “The outcome is likely to be one where the small country suffers the large country’s tariffs, and makes large concessions in order to try to alleviate the degree of predation.” (Conybeare, 1988, p. 77)

This shall conclude introductory considerations on international trade theory. It has been shown that factor endowments and domestic forces substantially shape economic bargaining positions between countries. In so doing, it has been referred to relevant ideas and concepts such as Ricardo’s theory of comparative advantage, the Heckscher-Ohlin theorem, and the Stolper-Samuelson theorem. Finally, a brief introduction into trade relationships according to Conybeare (1988) laid the groundwork before we now turn towards state cooperation.

## **1.2. State Cooperation**

Having introduced fundamental concepts and principles of international trade theory, we now turn to the issue of state cooperation. According to Ghaussy, “cooperation is the ... civilized response of nations to address common and global issues” (Ghaussy, 1998, p. 12). In a more sophisticated fashion, Grieco suggests “international cooperation may be defined as the voluntary adjustment by states of their policies so that they manage their differences and reach some mutually beneficial outcome” (Grieco, 1990, p. 22). Here, three characteristics are striking: Firstly, the process of cooperation is usually voluntary, hence nations choose to participate regardless external pressures. Secondly, a “common or at least compatible end” (Grieco, 1990, p. 22) should be shared among the parties involved in order to achieve some kind of consensus. Therefore, Axelrod and Keohane (1993) correctly distinguish cooperation from harmony which requires *identical* interests. This situation is usually easier to be found the smaller the number of participants (Grieco & Ikenberry, 2003), or “number of players” as Axelrod and Keohane (1993, p. 227) coin it. Those arguments notwithstanding, Jervis points out, “although actors may know that they seek a common goal, they may not be able to reach it” (Jervis, 1978, p. 168). Thirdly, cooperation describes a process of long-term engagement on a regular basis which does not preclude variation in cooperation over issue and time (Axelrod & Keohane, 1993). Thus, a one-time union of interests may not be called international cooperation in its original sense.

So what then is the connection between trade and cooperation? According to Stein (2001), trade is not exogenous to political decision-making processes but influences political calculations substantially. In this regard, Stein (2001) discusses the inherently ambivalent character of trade which may be either facilitating peace or generating conflict. On the one hand, enemies usually trade less with each other since trade depends on agreements. Hence, increasing trade relations come along with a more peaceful relationship between countries (Long, 1996). On the other hand, trade itself may be subject to conflict or used as a means of coercion (e.g., sanctions, threat of trade war). Thus, trade

does not present a clear-cut explanation for the nature of cooperation between countries. What, in fact, determines international relations is the specific foreign policy paradigm adopted by the political elite. This is mainly driven by power concerns or specifically states' power calculations. That is, states adjust trade ties to satisfy security as well as economic welfare goals (Pollins, 1989). A good definition of the power concept is provided by Brawley (1993) who depicts it as the capacity of a state to force its own will upon another which that would not have opted for by itself. Accordingly, the power question is central to international relations (Morgenthau, 1960 in: Vasquez, 1996). This is particularly so for "countries that are not self-sufficient [for] they must try to assure that the necessary supply will continue to flow" (Jervis, 1978, p. 168). The issue of power is also important in the case of neighboring countries which might easily distort the power balance within a region. However, as seen in times of the Cold War period, even distant nations may become decisive for each others' political calculations (Grieco & Ikenberry, 2003). What is more, states are particularly concerned with potential power loss. This may be the result of either its own failure to maintain its capacities, or simply another's gain in power.

In order for us to understand state behavior, a brief theoretical review is inevitable. International relations theory contains a great amount of different concepts trying to explain state relations. On top of that, there is an even greater amount of slight variations. For this work, realism and neoliberal institutionalism<sup>3</sup> shall be subjects of discussion. One could have easily opted for alternative theories such as functionalism or constructivism. The reason for not choosing those are as follows: Concerning functionalism, it primarily dates back to the early days of European integration which makes that theory less appropriate for an analysis of EU-Japan relations. Besides, it does not specifically deal with *actors* but with certain *events* that shape the political and social system as a whole. It could well provide further insights if the very political dialogue of Japan and the EU were to be analyzed. Here, however, the dialogue only represents the starting point of the discussion and not the very object to be re-constructed. Constructivism may also not be chosen due to its heavy reliance on societal forces' perceptions of specific ideas and concepts. According to Wendt (1995), international relations are socially constructed and not exclusively materialistic. Yet, that makes it difficult to discuss power relations with respect to topics as materialistic as economics and trade. In the following, realist and neoliberal institutionalist theory will be discussed in more detail. For that matter, take note of relevant propositions as presented in Table 1 and Table 2 below (at the end of this chapter).

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<sup>3</sup> The reasons why the author has not chosen liberal institutionalism are as follows: General propositions as in Table 1 (Grieco, 1993, p. 32) diverge greatly. The role of states is a disputable topic between liberal and neoliberal institutionalists. The latter thereby puts greater emphasis on states than on international and supranational organizations. As the European Union is in fact a supranational organization itself one could have argued in favor of liberal institutionalism. Nevertheless, in trade theory, a leading role still has to be granted to states. Even though there are international trade organizations such as the WTO, it is still for states to engage in trade negotiations/disputes. This finds further support in the following issue, i.e. states being unitary-rational actors or not. Liberal institutionalists claim state fragmentation. Indeed, as has been explained above, there are diverging interests within a society particularly when it comes to trade policy. In a way they may also exert influence in the political arena. Nevertheless, as state leaders conduct negotiations they usually pursue an explicit foreign economic policy which ideally remains free of contradictions. This is even the case in the European Union, which to some remains a collection of states (see e.g. Andrew Moravcsik for further information). Here, Member States' interests are condensed into a package which is then to be worked with by the European Commission in trade negotiations (Meunier, 2007; Zimmermann, 2007).

### 1.3. Realism & Neoliberal Institutionalism

Both realism and neoliberal institutionalism describe international relations on the basis of general considerations. The starting point is the role of states. Realists and neoliberal institutionalists agree on the predominance of states in world politics. However, neoliberal institutionalism adopts a more pluralist point of view in that it supports multilateral cooperation if possible. Furthermore, both consider states to be unitary-rational actors. That is, in international relations a state appears as a coherent self-interested entity since “any and all security, wealth, or prestige attained [...] is the result solely of [...] own efforts, for ... each state must act on the basis of national self-help” (Grieco, 1990, p. 21). This behavior originates from the acceptance of anarchy as the major shaping force for state action: “States are motivated by the temptation to exploit each other and by the fear of being exploited.” (Busch & Reinhardt, 1993, p. 427) Anarchy is usually defined as an international political structure where there is “no central agency available to enforce promises” (Grieco, 1990, p. 49; see also Busch & Reinhardt, 1993; Grieco & Ikenberry, 2003). Outspoken neoliberal institutionalists like Axelrod and Keohane (1993), however, point out that anarchy as defined as “a lack of common government in world politics ... does not imply it lacks organization” (Axelrod & Keohane, 1993, p. 226). This is due to structural relations between states, e.g., power balance between superpowers, or asymmetric relations between stronger and weaker nations. Realists go on to emphasize the missing force for protection in times of threat (Grieco, 1990), a concern not typically raised by neoliberal institutionalists. This indicates a difference in perception of international relations between the two theories. Furthermore, they differ in the role ascribed to international institutions. Whereas realists do not have much of an opinion of international institutions regarding the enhancement of cooperation<sup>4</sup>, neoliberal institutionalists are strong proponents. Concerning state cooperation, one may therefore distinguish between quite optimistic neoliberal institutionalists on the one hand, and rather skeptical if not pessimistic realists on the other (Grieco, 1990; Jervis, 1999). The different kinds of prospects are based on the fundamental difference between the two theories: states’ core interests.

Neoliberal institutionalism, for its part, regards states as being “rational egoists” (Grieco, 1990, p. 49) and “liberal, market-oriented [...] in the American sense” (Gilpin, 2001, p. 379) which determine their interests and preferences mainly individualistically, meaning extensive power calculations with respect to competitors are usually not conducted. Coming from that frame of reference, states are primarily concerned with achieving greatest *absolute* gains. Hence, the utility of an outcome of power relations (e.g., negotiations) is in direct proportion to the very gain achieved (i.e.,  $U = V$ ). As a result, there is a tendency to a certain degree of indifference to the partner’s payoffs. “States do not care whether partners achieve or do not achieve gains from the relationship.” (Grieco, 1990, p. 35) But this does not mean states were irrationally choosing options that effectively are to their own detriment. As long as the trade off involves at least absolute gains of some form or another regardless the absolute gains for others, states’ interests are supposed to be satisfied. That would not be the case if it was for

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<sup>4</sup> “States are left to their own devices ... States can raise armies and levy taxes – this ability is fundamental to what it means to be a sovereign state – but institutions and groups above or between states are not empowered to do so. States have the final word and the ultimate veto.” (Grieco & Ikenberry, 2003, p. 98)

an obvious loss in power by means of absolute losses. The only major concern of neoliberal institutionalists is, in fact, non-compliance and cheating on part of other parties involved (Grieco, 1990).

Realism defines states' main concerns as maintenance of survival and independence (Grieco, 1990) which is supposed to be threatened at all times. Therefore states were highly opposed to any change in the current power balance. Grieco (1990) mentions the notion of "defensive positionalists" (Grieco, 1990, p. 49) which implies reluctance to major disruptions to the *status quo*. Hence, realists stress the importance of *relative* gains. Other than neoliberal institutionalists, it is the relative gap in payoffs for each participant that is to be taken into account (Grieco, 1990; Heginbotham & Samuels, 1998; Grieco & Ikenberry, 2003). According to Jervis (1999), realism is more concerned about the *distribution* of wealth and power (whereas neoliberal institutionalism focuses on efficiency and the *creation* of wealth, power etc.). This is based on the fact that a slight change in the power balance today can lead to great power asymmetries tomorrow which would eventually expose the state to external influence, and set limits to authority in international conflicts (Mastanduno, 1991; Grieco & Ikenberry, 2003). "Interactions among economic/technological forces and powerful actors lead to shifts in the global distribution of economic activities, changes in comparative advantages ... and ultimately, transformations in the international balance of economic and military power." (Gilpin, 2001, p. 128) Accordingly, states are supposed to be willing to forego certain (economic) gains in order to prevent others from gaining more. This is especially the case when the relative power of a particular state has already been on the decline (Grieco, 1990) or the likelihood of war increases (Grieco & Ikenberry, 2003).

#### **1.4. International Relations & Trade Theory**

Closely associated with the realist rationale are two other concepts: mercantilism, and economic nationalism. These actually link international relations theory to economic and trade theory as outlined above. Mercantilism claims "a country's commerce is a foundation of its military power, and therefore governments should control the country's relationship with the world economy" (Grieco & Ikenberry, 2003, p. 99)<sup>5</sup>. Obviously, this is in stark contrast to a *laissez-faire* approach which precludes greater state involvement in trade. Mercantilism regards trade as a zero-sum game and assumes a nation's overall prosperity depended on its supply of capital which in turn might be used for governmental purposes. It was therefore necessary to acquire as much capital as possible. This was to be achieved by tapping either external or domestic sources. Here, the latter is the second-best option since it deprives the society of capital for future investment. Thus, the key is the creation of a positive trade balance with other countries in order to accumulate an abundance of capital and resources. Accordingly, government policies would ideally encourage exports and discourage imports (Ball *et al.*, 2008; Pelkmans, 2001). In relation to realism, Heginbotham & Samuels' (1998) notion of mercantile realism is relevant. It is this concept which puts emphasis on a country's need for technoeconomic advancement. This is in line with others recognizing the economic significance of innovation for

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<sup>5</sup> "Trade is the source of finance and finance is the vital nerve of war." (Jean-Baptiste Colbert in: Grieco & Ikenberry, 2003, p. 99)

capitalist societies (Schumpeter, 1975; Audretsch & Feldman, 2003; Cooke *et al.*, 2004). Other than purely structural realism, mercantile realism (i.e., the very foreign economic policy pursued in accordance with it) is not primarily concerned with security issues in terms of military capacities but the overall economic position in regional or global trade (Heginbotham & Samuels, 1998). Here, Heginbotham & Samuels emphasize the decreased relevance of military strength as well as the possibility to constrain some other's authority by economic means. Therefore, a country would be highly sensitive towards relative gains for major economic competitors. From a mercantile realist perspective, this implies countries with similar industrial structures would likely regard each other as threatening and keep intra-industrial trade at a minimum. In addition, a key objective would be to insulate the domestic economy from external influence since it was difficult to recoup economic independence once it was lost through increasing penetration from abroad. A more lenient approach would be adopted, however, if it was about relationships to smaller trading partners (Heginbotham & Samuels, 1998).

An issue which fits ideally into the discussion on mercantile realism is the notion of economic nationalism. Helleiner (2002) explains the very nature of economic nationalism that is inherent in (foreign) economic policies depended on the domestic structure: "In what ways do national identities and nationalism influence economic policy and processes?" (Helleiner, 2002, p. 326) Consequently, different countries would embrace very different kinds of economic nationalism. "Its central idea is that economic activities should be subordinate to the goal of state-building and the interests of the state." (Gilpin, 1987, p. 31 in: Helleiner, 2002, p. 309) Hence, this notion *can* be related to mercantilism, yet it does not represent protectionism *per se*. In fact, it "can be associated with any kind of economic policy" since "even liberals use nationalist appeals" (Helleiner, 2002, p. 326). Interesting enough, this brings up the question of the status of the European Union in this work. Is it state-like already? Thus, is it feasible to apply that concept to the EU altogether? After all none of the various Community bodies involved in trade negotiations does indeed represent a nation. This would imply a considerable lack of motivation for state-building activities. However, they all share the responsibility for the European people, the spirit of "unity in diversity", and a set of common European values<sup>6</sup>. So there might well be different economic policy objectives among the Member States, yet there is still a reasonable degree of common interest. The EU does indeed act as a unitary actor in trade negotiations. This allows for looking at the European Union's economic rationales as if it was a state just like Japan.

All in all, it has become clear that international relations theory and trade theory often intertwine. One does often have direct effects on the other. In addition, the main similarities and differences between realism and neoliberal institutionalism have been presented. It is particularly for that part to guide through the discussion of the European and Japanese foreign economic policy paradigms.

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<sup>6</sup> Todorov (2004): rationality, equality, democracy, individual freedom, separation of religion and politics, and tolerance

**Table 1: Summary of Major Propositions in Liberal Institutionalism, Neoliberal Institutionalism, and Realism**

| Proposition  | Liberal Institutionalism   | Neoliberal Institutionalism | Realism     |
|--|--|-----------------------------|-------------|
| States are the <i>only</i> major actors in world politics                    | No; other actors include:<br>- specialized international agencies<br>- supranational authorities<br>- interest groups<br>- transgovernmental policy networks<br>- transnational actors | Yes                         | Yes         |
| States are unitary-rational actors   | No; state is fragmented  | Yes                         | Yes         |
| Anarchy is a major shaping force for state preferences and actions           | No; additional salient forces include:<br>- technology<br>- knowledge<br>- welfare-orientation if domestic interests   | Yes (apparently)            | Yes         |
| International institutions are an independent force facilitating cooperation | Yes  | Yes                         | No          |
| Theory is optimistic/pessimistic about prospects for cooperation             | Optimistic   | Optimistic                  | Pessimistic |

(Source: Grieco, 1990, p. 22)

**Table 2: Summary of Neoliberal and Realist Views on States and International Cooperation**

|  | Neoliberal Institutionalism                     | Realism   |
|--|---|---|
| <b>Basis of Comparison</b>                         | No central agency available to enforce promises | No central agency available to enforce promises or to provide protection                              |
| Meaning of Anarchy                                 |   |   |
| State properties                                   | To advance in utility defined individually      | To enhance prospects for survival and independence  |
| Core Interest                                      | To achieve greatest possible absolute gains     | To achieve greatest gains and smallest gap in gains favoring partners                                 |
| Main Goal  | Atomistic ("rational egoism")                   | Defensively positional  |
| Basic Character                                    | Independent: $U = V$                            | Partially independent: $U = V - \alpha (W - V)$   |
| Utility Function <sup>7</sup>                      |   |   |
| State inhibitions concerning cooperation           | Partners' compliance                            | Compliance and relative achievement of gains and uses to which gaps favoring partners may be employed |
| Range of uncertainties associated with cooperation | To be cheated and to receive a low payoff       | To be cheated or to experience decline in relative power if others achieve greater gains              |
| Range of risks associated with cooperation         | State concerns about partners' compliance       | State concerns about partners' compliance and partners' relative gains                                |
| Barriers to cooperation                            |   |   |

Source: Grieco, 1990, p. 19

<sup>7</sup> Definition of terms:  $U$  utility,  $V$  absolute payoff,  $k$  state's sensitivity to gaps in payoffs,  $W$  competitor's payoff

## 2. EU-Japan Economic Relations: A Level Playing Field?

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In the following, the economic relationship between the EU and Japan shall be discussed and classified according to Conybeare (1988). This shall present the very fundament for further analysis. Therefore, trade statistics from independent and reliable organizations will be central in order to see whether an asymmetric relationship indeed exists. Here, asymmetry does not refer to trade and power relations in global but bilateral terms. That is, in contrast to Collignon (2006)<sup>8</sup>, it is the sole bilateral relationship between the EU and Japan that will be looked at.

Conybeare's (1988) analysis of different trade relations offers a tool for classifying EU-Japan relations. Here, it will be referred to the second and third categories only, i.e., trade relations between two large countries, and an asymmetric relation between a larger and a smaller power. On the basis of quantitative (and qualitative) factors, asymmetry in EU-Japan relations shall be tested.

Concerning the second alternative, i.e., trade relationship between two powerful nations, it would not take much to classify EU-Japan relations as such. After all, the European Union and Japan are economic superpowers, hence large powers as described by Conybeare (1988). In addition, despite official proclamations of free trade, both parties make active use of tariffs and import restrictions. Although those issues have largely been resolved thanks to multilateral cooperation within the WTO framework, trade remains far from being fully liberalized.

Even though the second alternative of Conybeare's (1988) classification appears to be appropriate, the third may not be discarded without having support of relevant and reliable quantitative data. If it was indeed for Conybeare's (1988) third category, the EU and Japan would be unequal partners in direct relations in economics and trade. That is, sharp differences in trade balances (trade deficit versus surplus), import/export shares<sup>9</sup>, and a great differential in foreign direct investments (FDI) were to be expected. The necessary quantitative data analysis follows below.

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<sup>8</sup> Collignon (2006) discusses the EU's position in global competition. In so doing, bilateral relations are not specifically touched upon. It is the overall power the EU (or: Euroland) enjoys in the global economy. So, the EU has a substantially greater share than most other players, including Japan. There is doubtlessly no contention towards that approach. It differs to the chosen one in this piece of work in so far as it does not account for direct relations between single actors.

<sup>9</sup> Japan's share of total imports into the EU, and *vice versa*; Japan's EU share of total exports, and *vice versa*

**Table 3: Current Economic Relationship between the EU and Japan**

| Indicator   | European Union | Japan   |
|---|----------------|---------|
| <b>Imports &amp; Exports</b>  |                |         |
| Imports from the other in €   | 76.5bn         | 44.6bn  |
| Exports to the other in €   | 44.6bn         | 76.5bn  |
| Balance of trade in €   | -31.8bn        | 31.8bn  |
| <b>Shares in Trade</b>  |                |         |
| Trade partner's share of overall trade (in %)                                   | 4.8            | 13.2    |
| Share of the other's total imports (in %)                                       | 10.7           | 5.7     |
| Share of the other's total exports (in %)                                       | 15.6           | 3.8     |
| <b>Foreign Direct Investments</b>   |                |         |
| Gross Inward FDI in 2005 (in €)   | 94bn           | 24.2bn* |
| Share of the other (in %)   | 7              | 45.4    |
| Gross Outward FDI in 2005 (in €)  | 172bn          | 36.6bn* |
| to the other (absolute in €)  | 11bn           | 6bn     |
| to the other (share in %)   | 6              | 16.6    |
| *Converted from US-\$ with oanda.com: Jan - Dec 2005 average: US-\$1 = €0.80453 |                |         |
| Sources: JETRO (2008), Eurostat (2007)  |                |         |

## 2.1. Trade Balance

In international trade, a relevant indicator of an economy's strength is supposed to be the balance of trade. It thereby stands for the difference between the monetary value of exports and imports over a given period of time (Ball, 2008; Grieco & Ikenberry, 2003). When a country exports more than it receives from abroad, one speaks of a trade surplus which effectively reveals some sort of comparative advantage. On the other hand, a country might run a trade deficit if it consumes more than it produces, i.e., imports being larger than exports. As a matter of course, realists would theoretically be more inclined to run trade surpluses so as to ensure survival and independence.

The European Union, regardless of whether referred to the EU-15, EU-25 or EU-27, is one of the main actors in international trade of goods and services (Eurostat, 2006). It accounts for the greatest overall exports in goods, and comes close second to the US in terms of imports. All in all, with a brief exception during the mid-1990s, the EU has traditionally been running a trade deficit with the rest of the world. Japan, on the other hand, is a net exporter. That is, it is also a leading trading nation. However, exports outweigh incoming goods and services by far (WTO, 2007). Bilaterally, the European Union and Japan represent major trading partners to each other. Nevertheless, the balance has been missing at times since trade deficits were highly contentious issues particularly during the 1980s which also gave impetus to closer cooperation within the Hague framework. In 2006, Japanese goods accounted for a value of about €77bn while European exports were just close to €45bn which

leaves a deficit of c. €32bn (Commission, 2007). The European Union has been working on reducing the deficit but came to an acceptance of a reasonable structural trade deficit between the European Union and Japan. Gilson (2004) claims the trade deficit between the two was inherent and structural, and goes on to attest the relationship a sharp asymmetry in terms of trade. This does indeed give weight to affirming the first sub-question. Hence, Conybeare's (1988) third trade relationship could possibly be more appropriate than the second, i.e., two large competing powers.

## **2.2. Import & Export Shares**

With respect to import and export shares between Japan and the European Union, the former obtained a 6.2% share of imports to the EU-25 in 2006 which is equal to 15.6% of overall Japanese exports (Commission, 2007). At the same time, the European Union did indeed gain a greater share of total Japanese imports of about 10.7%. Nevertheless, this figure accounted for only 3.8% of total EU exports (Commission, 2007). For the European Union, Japan remains probably little more than an attractive market which is difficult to penetrate. The share of exports destined for Japan is of minor importance to the overall well-being of European industry. According to that, Japan benefits far more from Europe than it would be vice versa. This does not mean Japan was in greater dependency.

In sum, the European Union runs a trade deficit with Japan. As said, the issue was highly debated during the 1980s and beginning of the 1990s. Due to the slowdown of the Japanese economy the issue became less eminent. Over the course of 2002 until 2006, however, the trade deficit has progressively been on the rise (Eurostat, 2006). Considering the contemporary situation in export and import shares, the Japanese seem disproportionately represented in Europe.

## **2.3. Foreign Direct Investments**

Another issue helping to identify asymmetry is the relation in foreign direct investments (FDI). FDI is important to an economy as it creates or represents the basis for return on investments, hence future income. At the same time, FDI may also be used so as to acquire strategic assets. Accordingly, there are both potential upsides (see Table 4) and downsides to attracting FDI.

The European Union attracts substantial shares of world FDI. Nevertheless, as a whole it remains a net capital exporter (Eurostat, 2007). Interesting enough, the major investor was not the US or any other leading economic power but the European continent, hence European non-EU countries. This reveals the intraregional character of foreign direct investment. While in principle industrialized nations prefer investing between themselves (Ball *et al.*, 2008), multinational corporations recognize the importance of less developed and soon to emerge backyards close to their domestic markets. In the case of the European Union, this backyard has doubtlessly been Central and Eastern Europe (Eurostat, 2007) before accession in 2004 and has shifted further east and south (i.e. Croatia, Turkey)

in recent years. As for the development of FDI flows, the close relation to economic performance is striking. During a period of sluggish growth around 2001-2003, FDI flows, both inward and outward, have been slashed across the board. Hence, the proposed reduction of volatility (see Table 4) might not be justified at all times. FDI flows have in fact been subject to some greater volatility since the beginning of the millennium.

**Table 4: Advantages of FDI**

|   |
|---|
| <p><i>For the Investor</i></p> <ul style="list-style-type: none"> <li>○ For the investing firm, FDI usually means access to new markets and better knowledge of those markets. This may, however, come at higher international transaction and organisational costs.</li> <li>○ In some service industries, local market presence (e.g. a banking outlet or representative office) may be a prerequisite for serving that market.</li> <li>○ Lower labour, raw material and intermediary input costs may determine where the direct investment enterprise is located.</li> </ul>  |
| <p><i>For the Investee</i></p> <ul style="list-style-type: none"> <li>○ As it is less liquid and tradable than portfolio investment, FDI flows are usually less volatile. Especially in the case of developing countries, this type of financing reduces the risk of external speculation and liquidity crises. FDI contributes positively to the recipient's balance of payments, both through the initial transaction and by adding to export growth.</li> <li>○ FDI contributes to growth in the target country by increasing the production base, by creating employment and through multiplier effects (e.g. orders from other local industries). By contributing to higher competition, FDI can lead to an improvement of other domestic firms' efficiency and product quality. It may conversely contribute to the 'crowding out' of local firms, i.e. the closure of other uncompetitive production units. FDI acts as a catalyst for domestic investment and technological progress through the transfer of technology to the recipient. Similarly, it may raise management expertise and marketing skills</li> </ul> <p style="text-align: right;"><i>Source: Eurostat, 2007, p. 23</i></p> |

As for Japan, it has traditionally been a great outward investor making it a net capital exporter (UNCTAD, 2000; OECD, 2007) and one of the leading lenders (Burstein, 1989). Recently, there has been a sharp increase in outward FDI since 2004 (OECD, 2007). The flow culminated in US-\$50bn which marked the record high since 1990 when the Japanese bubble was at its peak. Nevertheless, this is according to the OECD (2007) still below what could be expected of an economy as large as the Japanese. Inward FDI has only gained importance during the 1990s when the economic recession required foreign capital supply in order to keep the economy running. Since 2000, however, the development has come to a halt despite recognition of the importance of FDI and subsequent political efforts: "The Japanese government announced plans to accelerate efforts to achieve its goal of doubling Japan's total FDI stock to the level of 5% of GDP by 2010 ... Given its many benefits, FDI is seen as a key to revitalizing and strengthening Japan's economy." (JETRO, 2008) Since 2004, FDI inflow has been on the decline. In 2006, FID inflow even turned negative when two large foreign

corporations abandoned their Japanese market aspirations (OECD, 2007). While one could argue a cultural barrier was responsible for the relatively poor attraction of foreign capital, others regard it as a direct consequence of regulatory mechanisms that prevent foreign corporations from entering the market smoothly (Matsushita, 1993; OECD, 2007) and Japan's relative remoteness (OECD, 2007). The latter is, however, bound to become less relevant in near future as the core of the world economy slowly shifts towards Asia Pacific.

### **2.3.1. EU-Japan Relations in Terms of FDI**

While the European Union does not belong to the major recipients of Japanese FDI<sup>10</sup>, some selected EU Member States do in fact attract substantial shares. Among those are the United Kingdom and the Netherlands which at the same time accounted for most of the increases of Japanese FDI since 2005 (OECD, 2007). In the run-up to EU accession during the 1990s, Central and Eastern Europe also received greater shares of Japanese investments (Berkofsky, 2007). In general, however, the EU as destination for Japanese FDI has decreased over the last decade (Eurostat, 2007; DG Trade, 2008). In spite of declining FDI inflows from Japan, it remains the major Asian investor in the European Union with a share of 71% (Eurostat, 2007).

At the same time, the EU increased its investments in Japan continuously. The FDI stock currently held approximates the Japanese in the EU. An aggressive catch-up in investments in Japan can be observed (Eurostat, 2007). In addition, the European Union has emerged as the main foreign investor in Japan (Berkofsky, 2007). Statistics, however, also show that the approximation has not turned around the traditional situation of greater Japanese investments compared with the European upside down. While the EU invests more in absolute terms by now, the Japanese dedicate still a greater share of their FDI to the EU. This should also be seen in the light of different economic fundamentals with the EU's GDP outweighing the Japanese' by far (WTO, 2006). Therefore the European FDI stock should ideally be higher than the one held by Japan. This is, however, not the case.

Considering all this, it has become evident that the relationship between the EU and Japan is indeed rather asymmetric. While the very shares of each others' imports and exports say little about the economic relationship (i.e., the argument could be in two very different directions as a great Japanese share of EU imports could be an indication for either dependency on or success in penetrating the European market on part of Japan). However, the traditional trade deficit and the relative edge in outward FDI on part of Japan does indeed reveal a certain degree of asymmetry between the European Union and Japan, hence the third category of Conybeare's (1988) would be most appropriate. Accordingly, the concept provided by Conybeare (1988) suffers from an inherent shortcoming in that it misses the very nature of trade relations. That is, instead of emphasizing mere size of a country, not least an economy, it seems to be much more decisive what the actual content and profoundness of the relationship are.

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<sup>10</sup> Major recipients of Japanese FDI are the US and China. (OECD, 2007)  
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## 3. EU-Japan Relations

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### 3.1. Historical Overview

Since the 1960s, the European Union has experienced a rather bumpy relationship with Japan which was largely dominated by trade conflicts (Gilson, 2004). Thereby, the relationship has remained the “weak side of the triangle”<sup>11</sup> (Gilson, 2000, p.3-4). It was not until the Declaration of The Hague in 1991 that both parties adopted a more institutional approach by creating a regular channel for dialogue. This might have been a direct consequence of changes in the international environment, mainly the end of the Cold War. In addition, the European Union also adjusted its conception of the Far East due to emerging Asia (Gilson, 2000).<sup>12</sup>

Previously, Europeans were largely concerned with the economic emergence of Japan. As early as the 1950s when Japan joined the General Agreement on Tariffs and Trade (GATT), fears of Japanese dumping like in the 1930s recurred (Gilson, 2000). EC Members gradually adopted import restrictions for Japanese goods. Closer diplomatic ties between European decision-makers and the Japanese government in order to conclude a trade agreement were being created during the 1960s<sup>13</sup>. The growing awareness did not, however, evolve into a more systematic approach for cooperation.

In the 1970s, Japan substantially increased its export volume to Europe as a consequence of the “Nixon shock” (Gilson, 2000).<sup>14</sup> In order to establish greater reciprocity, the EU (then: EC) adopted a more affirmative approach. In the light of increasing Japanese exports, it called on Japan to open up its domestic market for foreign business. While issues regarding tariff and quota systems could largely be resolved within the GATT framework, non-tariff barriers to trade still pose tremendous problems. Among the most important issues were certification procedures and vertically and horizontally integrated industrial, commercial and financial groups which prevented and, to date, still prevent foreign enterprises from getting access to the Japanese market. The friction then culminated in the famous “Poitiers incident”<sup>15</sup>. The measures had to be abolished soon after. Yet, this event marked a turning point in the Japanese perception of Europe. As opposed to many bilateral negotiations, Japan recognized the need to closer cooperate with the EU. Accordingly, the 1980s saw more harmonic cooperation not least due to lowered insistence on liberalization by the Delors Commission which was identified as an “explicit non-American style approach” (Gilson, 2000, p. 36). At the same time, the growing Japanese willingness to cooperate may also be seen as a response to increasing European integration. Concerns about the creation of a “fortress Europe” were widespread. Evidence is found in

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<sup>11</sup> US – Japan – EU

<sup>12</sup> Several EU documents are example of a growing awareness of the Asian emergence, e.g. “Towards a New Asia Strategy”, 1994; “A Long Term Policy for China-Europe Relations”, 1995

<sup>13</sup> The European approach was little coherent. There was no unified action. Member States negotiated individually. The European Commission failed to both coordinate Member States’ interests as well as successful step into trade negotiations itself (Gilson, 2000).

<sup>14</sup> In 1971, Nixon unilaterally abolished the Bretton Woods system (dollar-gold convertibility), enacted price controls, and levied a 10% surcharge on imports. The latter affected Japanese business the most.

<sup>15</sup> France undermined the import of Japanese VCRs.

reactions to the Single European Act as well as virtually all agreements concluded since 1990. In order to circumvent potential protectionist tendencies, the Japanese adopted a similar approach as in the case of the US in that they invested heavily so as to have its foot in the door.

### **3.2. EU-Japan Relations - Institutionalization**

Subsequently, EU-Japan relations grew in maturity. With the Hague Declaration of 1991, we shall now turn to the relation between Japan and the EU in a more analytical fashion. Focusing more on the institutional relationship between the European Union and Japan, the two most important frameworks for cooperation are the EU-Japan Summits and the Regulatory Reform Dialogue. As for the former, systematic steps toward greater policy coordination have been taken since the milestone declaration of The Hague in 1991. Since then, meetings are held annually with changing locations between Japan and Europe.<sup>16</sup>

In the framework of the EU-Japan Regulatory Reform Dialogue (RRD), begun in 1995, the EU and Japan exchange proposals annually in which they elaborate on how to improve the other's regulatory environment regarding mutual economic and trade relations. The RRD has grown into a well-established high-level framework dedicated to solving trade and investment issues on a bilateral basis. In addition, a review mechanism assessing progress made guarantees close observation of issues relevant to the parties and thereby keeps track of overall developments. While the RRD is just one part of the EU-Japan relation it is, however, the most economic-directed cooperation framework. That is why it becomes so meaningful for this piece of work. EU proposals usually address areas where benefits would accrue to both domestic and foreign firms (Delegation of the European Commission to Japan, 2008). Issues range from regulations regarding FDI, government procurement and privatizations, to international accounting standards, financial services, and healthcare and cosmetics, hence usually a broad range of non-tariff barriers to trade (NTB).<sup>17</sup>

Thereby, proposals usually address both sector-specific issues as well as principles of good governance. Concerning the latter, matters such as transparency of decision-making and legal certainty for foreign business, have been discussed. Encouraging a greater involvement of different interests in Japanese decision-making process also relates to the valuable experience the EU has made itself (Delegation of the European Commission to Japan, 2008). This is particularly the case in the RRD with Japan as the Commission incorporates advice from the European Business Council in Japan (EBC).

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<sup>16</sup> Japan: usually Tokyo, the EU: usually the capital of the current Presidency

<sup>17</sup> "Behind-the-border issues" can be read from Table 8 and Table 9, e.g. standards & certification (foreign testing), triangular mergers and taxation, licensing (foreign and domestic lawyer partnerships)

## 4. EU Foreign Economic Policy

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### 4.1. Introduction

After having laid down general theoretical considerations and introduced the background of EU-Japan relations, we now turn to the application of theory. After a brief exploration of the general setup of the EU's trade policy, the two central theories of this thesis shall be involved. That is, the Union's policy shall be seen from a realist as well as neoliberal institutionalist perspective. In so doing, striking features of the foreign economic policy will serve as focal points in order to allow for a verification of the very foreign economic paradigm. Reference to the two theories shall be made where appropriate.

### 4.2. The EU as a Single Actor

Classifying the European Union in international relations theory poses problems. This is due to the nature of the EU and the state-centric frameworks in international relations theory. After all, the EU is not a state, and hence does not easily fit into realist theory (Zimmermann, 2007). Nevertheless, trade theory might be an exception since it is "the EU's oldest and most successfully integrated policy sector" (Meunier & Nikolaidis, 1999, p. 477).

To begin with, we explore the underlying principles and originalities of EU trade policy. Its foundation is twofold (Nugent, 2003) and direct consequence of the establishment of the EC in 1957 (White, 2004): Firstly, the Common External Tariff (CET) establishing a customs union ensures a single market as to third parties, that is, a single external tariff applicable to all Member States prevents trade diversion effects:

✎ Art. 23(1), EC:

*The Community shall be based upon a customs union which shall cover all trade in goods and which shall involve ... the adoption of a common customs tariff in their relations with third countries.*

✎ Art. 131, EC:

*By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers...*

The second part is the Common Commercial Policy (CCP), a policy field of exclusive Community responsibility. This suggests a uniform agenda pursuit in economic relations to third countries. Competence is shared between Member States as embodied in the Council and the Commission. The latter leads negotiations and determines the Union's bargaining position, and thereby has the final

word on concluding agreements with external partners. The legal base for this is to be found in:

➤ Art. 133(1), EC:

*The common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies.*

➤ Art. 133(3), EC:

*Where agreements with one or more States or international organisations need to be negotiated, the Commission shall make recommendations to the Council, which shall authorize the Commission to open the necessary negotiations. The Council and the Commission shall be responsible for ensuring that the agreements negotiated are compatible with internal Community policies and rules.*

*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. The Commission shall report regularly to the special committee on the progress of negotiations.*

In so doing, the Commission works with a package deal made up of Member States' different priorities (Meunier, 2007; Zimmermann, 2007). Accordingly, the Commission (i.e. the EU) does act as a unified actor (Ginsberg, 1990; Meunier & Nikolaidis, 1999). Both the CET and CCP are therefore widely dominated by the European Commission following objectives laid down in the treaties, established by the European Court of Justice or adopted as part of legislation (Young, 2000). In principle, trade liberalization both within Europe as well as abroad has been the driving force of the Commission's activities. According to Nugent (2003), the most important objectives are as follows:

- Lowering international customs duties
- Removing non-tariff barriers to trade
- Opening up of markets (i.e. restricted spheres of trading activity)
- Preventing damage (i.e. exceptions for Member States in e.g. agriculture)

In so doing, the European Union has to comply with:

- Art. 3, EC: consistency in external representation, and
  - Art. 5, EC: prohibition of actions at odds with treaty objectives.
- (Young, 2000)

Considering all this, the EU seems very much in favor of free trade. Indeed, it has been a major supporter of the WTO (Pelkmans, 2001). However, one may not equate political statement with political action. That is, according to Pelkmans, the core of the European Union's commercial and

trade policy appears ambiguous. As given in Art. 4, EC, the EU seeks to establish “an open market economy with free competition”. While this reads very clear at first, this principle does not demand full abolishment of barriers to trade. Therefore this was not the proclamation of trade liberalization but only a prohibition of more protectionism within the EU (Pelkmans, 2001). Accordingly, the objectives pursued by the EU may not necessarily be more than “a list of good intentions” (Pelkmans, 2001, p. 249) as they originate from Art. 131, EC aiming at “the harmonious development of world trade”. This seems vague and raises doubts. Exceptions so as to prevent damage to Member States seem more like a general rule.<sup>18</sup> The very positive attitude towards free trade is in stark contrast to protectionist measures in fields such as agriculture, textiles, coal and steel, cars, shipbuilding, and services.

### 4.3. Policy Instruments

As for policy instruments, the Commission has limited capacities (see Table 3). Integrated in a multilateral trade system, the Commission’s hands are tied. Nevertheless, one feature that the European Union’s foreign economic policy has been known for is the so-called “pyramid of preferences”. This pyramid resulted from a very distinctive application of free trade principles. The European Union generally ensured free trade with trading partners and supports the multilateral WTO framework as well as the rule of international trade law (White, 2004). Not by any grand design (Pelkmans, 2001) but because of some Member States’ colonial past, certain trading partners enjoyed relative advantages over others. Being the most frequent user of Art. 24, GATT, which allows for discrimination among those favored, the EU distinguished between friends, lesser friends, and foes with non-European OECD countries such as the US and Japan belonging to the middle group if not least-favored (Pelkmans, 2001). As a result, the well-known “most-favored nation clause” did not actually take effect. In recent years, however, the pyramid has flattened not least because of EU accession on part of some of the originally most-favored countries.

**Table 5: EU Trade Policy Instruments (Source: Pelkmans, 2001, p. 250)**

| Instruments                             | National/EC         | To be noted   |
|---|---------------------|---|
| Tariffs                                 | EC                  | GATT-bound, and autonomous                                      |
| Preferential Tariffs (or tariff quotas) | EC                  | MFN-duty beyond low-tariff quota                                |
| Quota                                   | EC                  | Few left (mostly agriculture and fisheries) after Uruguay Round |
| VERs                                    | Both                | To be removed before 1999                                       |
| Anti-dumping duties                     | EC                  | Max. 5 yrs (review possible)                                    |
| Price undertakings                      | EC                  | Floor price instead of A.D. duties                              |
| Regulatory barriers                     | EC (most), national | Mostly technical  |
| Export subsidies                        | EC                  | Agriculture only  |
| Domestic subsidies                      | Both                | Both EC and WTO rules apply                                     |
| Licenses (automatic)                    | National            | For the whole internal market; strict EC rules                  |

<sup>18</sup> Restrictions in some fields may be granted. (ECJ Case 1/78)

What is more, the EU has traditionally leaned on volume protection (i.e., quotas). This was mainly enacted as anti-dumping measure of which, for instance, Japan accounted for roughly 70% in 1992 (Pelkmans, 2001). Since the early 1990s, however, the use of quantitative trade protection mechanisms has steadily declined. It has only gained prominence when anti-dumping measures were imposed on Chinese textiles in 2005.

In an Inglehartian fashion<sup>19</sup>, Pelkmans' (2001) attests cyclical changes in the Union's support for trade liberalization. He finds both "high" and "low" for trade liberalization which could be related to economic performance at that time. Smith (2004) also concludes changes in the European foreign economic policy were "reflecting seismic changes in the foundations of national and international action" (Smith, 2004, p. 75). Grieco (1990) discovered a great reluctance on part of the EU (then: the EC) to further opening of markets during the 1980s when Europe seemed to fall behind other economic powers (a "low"). With increasing European integration and economic growth dynamics, the European Union apparently "adjusted" its standpoint on trade liberalization, i.e. greater support (a "high"). Now that China emerges economically the EU might well be entering a "low" phase again. This argument as such is not surprising. What is interesting to note, however, is that it is a realist proposition which one can identify in the European foreign economic policy. It is effectively rooted in defensive positionalism as put forward by Grieco (1990).

#### **4.4. Normative Power Europe**

Despite indications of a realist paradigm (i.e., protectionism, defensive positionalist) in European foreign economic policy, there remains a broad understanding of the European Union as representing something unique, hence *sui generis*. When we speak about liberalism, or in this case neoliberal institutionalism, one should recall the origins of that theory. It was and it is in opposition to realist power politics. According to Mearsheimer (2001), liberalism finds its roots in the enlightenment. It is also the enlightenment which many scholars attest the European Union policy as well as public perception to be example of.

One of the most famous related notions is Manners' "Normative Power Europe" (hereafter: NPE; 2002).<sup>20</sup> NPE has been highly debated as it stands for a range of principles that some see embodied in the European Union. So the EU is a "promoter of norms which displace the state as the centre of concern" (Manners, 2002, p. 236) by the sole "virtue of its international presence and value-rational conduct in foreign policy" (Merlingen, 2007, p. 437). While this does not necessarily preclude a leading role for states, the predominance seems greatly undermined nonetheless. Therefore, one can observe a great distinction from both realism and neoliberal institutionalism. EU policy seems more in line with original liberalism when it comes to the role of states. Nevertheless, trade policy may again be an exception.

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<sup>19</sup> See Inglehart, 1977

<sup>20</sup> This notion is also to be seen as an alternative to "civilian power" (Duclière, 1973 in: Manners, 2002) and "military power" (Bull, 1982 in: Manners, 2002), or soft and forceful, respectively.

The norms express themselves in the upholding of democratic values, human rights and the rule of law (Manners, 2002; Merlingen, 2007; Pace, 2007; Scheipers & Sicurelli, 2007) but also good governance, unequivocally peaceful relations and economic integration (Pace, 2007). Since the EU was constructed on a normative basis, its actions are predisposed to be of normative value, too (Manners, 2002). Hence, values and principles shared within the EU directly relate to its actions. More specifically, one can identify those norms as the willingness to impinge on state sovereignty, interventions in support of individuals, and absence of obvious material gain from its interventions (Manners, 2002)<sup>21</sup>, hence “border-crossing solidarity with the less” fortunate (Merlingen, 2007, p. 437). To some, those might be worthy goals but solely based on false hopes. After all, foreign economic relations are supposed to be the new battlefield of our times (Rüland, 2001). According to Manners (2002), however, times have substantially changed. While he agrees that the EU might not have been sensible during the age of power politics in the 1980s, the 1990s saw great changes in the international environment. No longer is the world divided between two superpowers. Moreover, the decline of the US has left the global system with a power vacuum which is only slowly made up for by others. Therefore, the European Union as a guiding force of normative standard as proposed by Manners and others might actually prove essential to peace in a world that might not have been closer to anarchy.

Nevertheless, the whole discussion on NPE might be biased in the sense that it is Eurocentric as it presents the EU as the frontrunner or vanguard of mankind (Ramos, 2006). This issue is taken up by Tsuruoka (2006) who argues “bureaucrats and scholars have paid much attention to ‘product development’ while ignoring ‘market research’” (Tsuruoka, 2006, p. 12), doubting whether the EU’s self-image meets external perception. In essence, the capacity for the EU to establish itself as an international actor depended on third countries’ acceptance as such. This is in conflict with Manners’ argument “the most important factor shaping the international role of the EU [was] not what it does or what it says, but what it is” (Manners, 2002, p. 252). To make his point, Tsuruoka (2006, 2007) builds on the concept of expectation-deficit and expectation-capability gap. According to that, the EU is being perceived differently around the world. While the third world had (too) high expectations of the EU (i.e., expectations-capability gap), powers such as the US and Japan expected little (i.e., expectation-deficit). A recent study in the Asia-Pacific region found that the EU is indeed perceived as an

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<sup>21</sup> According to Manners, there are different ways in which the EU diffuses its inherent norms:

1. *Contagion:*

The unintentional diffusion of ideas, hence the EU serving as an example for others regions such as Africa (e.g. African Union) and Latin America (e.g. Mercosur)

2. *Informational:*

Norm diffusion by means of policies and declarations

3. *Procedural:*

Interregional cooperation with other blocs and communities whereby the “European” procedures are institutionalized even abroad

4. *Transference:*

Norm diffusion as a side effect of trade relations, the exchange of goods

5. *Overt diffusion:*

Most visible increase of influence and reach of European norms through (peace-building) missions in other states

6. *Cultural*

“economic bloc using a soft power approach” (Chaban & Holland, 2005, p. 27) which essentially supports the NPE notion.

On the other hand, Zimmermann (2007) argues the Commission itself had turned down the notion of NPE and changed towards a more assertive, realist agenda. Referring to the WTO accession talks with Russia and China, “relative gains against other great powers were one core motive of the EU” (Zimmermann, 2007, p. 824). Similar resentments can be found in Commission documents:

➤ Commission Communication, COM(1994) 314 final, “Towards a New Asia Strategy”:

*“The Union needs as a matter of urgency to strengthen its economic presence in Asia in order to maintain its leading role in the world economy. The establishment of a strong, co-ordinated presence in the different regions of Asia will allow Europe [...] to ensure that its interests are fully taken into account there.” (p. 1)*

➤ Commission Communication, COM(1995) 279 final, “A Long-term Strategy for China-Europe Relations”:

*“In order for European industry to be globally competitive we must be present on the world’s most dynamic markets ... An active role for EU business in China, where US and Japanese competition is already fierce, is essential ... EU companies are lagging clearly behind not only Hong Kong and other overseas Chinese but also US and Japanese companies.”*

*“However, this slight reduction compares favourably with the collapse of US (from 19% in 1980 to 8% in 1990) and Japanese (from 26% in 1980 to 10% in 1990) shares in the total of China’s imports in the same period. Therefore, the US, the EU and Japan all lost market share in China during the 1980s, but **the EU managed to retain its relative position much more successfully than its competitors**. Recent figures suggest a **growth in market share for the EU** (around 15%), less dramatic than that of Japan, but more impressive than a stagnant US position.”*

*“The US is in the process of developing a more pragmatic relationship with Asia. Whereas in the Cold War the US was prepared to subordinate its economic interests to the goal of containment, it is now focusing more and more on the economics of the relationship.”*

This is in line with most recent policy developments by EU Commissioner for External Trade Peter Mandelson who encouraged the EU to use its trade power more assertively (Allen & Smith, 2007; Zimmermann, 2007). This poses a problem since Member States have very different interest at

times.<sup>22</sup> However, this division is not to be overestimated the EU becomes increasingly important on the world stage not only because of its size and resources but also the “ability to act in a united, or at least coordinated, manner” (Nugent, 2003, p. 407).

Another issue that might have been affected by the slight change of objectives is the EU's support for multilateral fora. The EU itself saw an increasing number of bilateral agreements – for instance, with ASEAN, Mercosur, South Korea, India, Russia, Golf Cooperation Council -- which might be interpreted as a shift away from multilateral rule-making (Evenett, 2007). At the same time, it is worth noting that particularly the agreements with ASEAN, Mercosur and the Golf Cooperation Council imply the very opposite as they strengthen intraregional cooperation abroad. In spite of counterarguments pointing at purely reactive geopolitical and geo-economic considerations (Zimmermann, 2007), the EU's approach may well be seen as a stronger impetus to multilateralism than the conclusions of bilateral agreements would initially suggest.

An issue which academia also is divided on is the role of civil society in European decision-making. While Zimmermann (2007) claims influence was limited, Hix & Küblböck (2006) do indeed find “significant influence” on part of lobbyists of every kind. Hence, society seems well taken into account which gives weight to the neoliberal institutionalist notion.

Considering all this, it is not clear whether the EU is more executive-oriented (i.e. realist) or institutionalist. There are arguments in favor of both. Trade negotiations are part of power politics which requires certain assertiveness. At the same time, however, it is striking to see the broad perception of the European Union's originality and effect on international relations. For the time being, it is concluded that there is a slight tendency towards a more liberal agenda. Further clarification is to be obtained in the analysis of the EU-Japan cooperation framework.

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<sup>22</sup> As seen in the anti-dumping case with China, 12 Member States were opposed to anti-dumping measures, 13 Member States voted in favor, and thereby enacted economic sanction.

## 5. Japanese Foreign Economic Policy

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In the following, it shall be shown what rationale may be behind the Japanese foreign economic policy. To begin with, the Japanese foreign economic policy may be regarded as “puzzling” (Heginbotham & Samuels, 1998, p. 188), and difficult to pin-point<sup>23</sup> if not paradoxical. After all, a deeply rooted contradiction is what it is prominent for. While praising multilateral cooperation, Japan does not hesitate to claim its right for exceptions.<sup>24</sup> In economics and trade, Japan pursues both economic liberalization abroad and maintenance domestically. That is, greater economic liberalization is rejected on grounds of threats to its social fabric, i.e. harmony within society, and because of a general aversion to dependency (Heginbotham & Samuels, 1998). Harmony would be at stake due to increased competition in the domestic market, and undermine anticompetitive practices (Gilpin, 2001). That reluctance has been opposed by others, particularly the US and the EU which would be the foremost actors to roll up the Japanese economy.<sup>25</sup>

As explained in the discussion of mercantile realism, the level of indifference towards a trading partner’s relative gains depends on the similarity between the two trading countries. Countries are usually more reluctant to relative gains for others in the case of countries with similar industrial structures, thus economic competitors (Heginbotham & Samuels, 1998). Indeed, Heginbotham & Samuels (1998) find a low level of Japanese concern towards relative gains for China as a result of increased trade. With respect to the EU and the US, however, Japan seems more sensitive (Heginbotham & Samuels, 1998). This implies a tendency towards realism.

Potter & Sueo (2003) attest another issue in favor of realism: reactivism. As realists try to maintain the status quo, greater political evolvments are unlikely. Developments should occur piecemeal at best as realists are expected to be of reactive nature. That is, changes are only initiated if certain developments in the environment appear inevitable, hence “reactivism” (Potter & Sueo, 2003) or “defensive positionalist” (Grieco, 1990). Here, one may refer to the Japanese proposal of setting up a trilateral currency system consisting of the US-Dollar, the Euro, and the Japanese Yen on a global level. This was an attempt to secure Japan’s standing in the global finance and a direct response to the emergence of the Euro as a leading reserve currency (Potter & Sueo, 2003). One may also think of the latest developments in terms of FTAs as opposed to multilateralism. Here, Japan responded to regional integration processes not only in Europe but also in the Americas.

Coming to the issue of mercantile realism, it was mentioned that there is greater Japanese reluctance towards major competitors. In order to see whether this concept applies to Japan, current and historical trade relationships shall be looked at. While trade surpluses would not necessarily prove

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<sup>23</sup> Gilpin illustrates the broad range of different notions characterizing the distinctive Japanese political and economic system: “Shinto capitalism, developmental state capitalism, tribal capitalism, collective capitalism, welfare corporatism, competitive communism, network capitalism, companyism, producer capitalism, stakeholder capitalism, strategic capitalism, and ... Japan Inc.” (Gilpin, 2001, p. 158)

<sup>24</sup> Here, one may think of such issues as the North Korean nuclear negotiations in which Japan tries to bargain on the abduction cases, or commercial whaling activities against worldwide outrage. In addition, Japan has not carried the greater burden concerning its security alliance with the US. Instead, it repeatedly threatened to join the Communist bloc before 1990 (Heginbotham & Samuels, 1998).

<sup>25</sup> “We are being played for fools.” (Friedman in: Heginbotham & Samuels, 2003, p. 186)

active mercantilist policies, certain insights could be derived nonetheless. One would expect a country to lead in a specific field of economic activity, i.e., comparative advantage and specialization. According to Heginbotham & Samuels (1998), the situation for Japan is unambiguous as it runs trade surpluses with almost all of its trade partners. Even more insightful is the composition of partners. That is, trade surpluses have been achieved with countries of diverse economic backgrounds, whether rich or poor, agricultural or industrial. Hence, the data apparently reveals little specialization on part of Japan which gives rise to mercantilist assumptions. Nevertheless, one could equally argue the theoretical concept was simply missing the point. After all, it might well be that Japan can offer a product or service which is highly demanded throughout the world, e.g., high technologies and automobiles. While there are clear tendencies towards realism, the issue of mercantilism cannot undoubtedly be resolved.

Concerning international cooperation, Japan has traditionally been a strong supporter of multilateral regimes. For a long time, it has preferred fora such as the WTO, the “bastion of multilateralism” (Ariff, 2007, p. 246), and even condemned others for concluding FTAs (Munakata, 2001). Whether this suffices to say Japan was pursuing a rather institutionalist agenda seems doubtful, especially if one imagines the multilateral level being a counterweight to Japan’s dependence on the US (Potter & Sueo, 2003). Nevertheless, it was not until recently that Japan became more engaged in concluding bilateral trade agreements (Solís & Urata, 2007). This might be due to the perceived vulnerability, lack of security, and low reputation of Japan. With the emergence of China as the new dominating actor in the region, which signed agreements bilaterally on a frequent basis, Japan needed to adjust its approach in order to counter trade diversion effects (Sally, 2006; Solís & Urata, 2007). This step is an expression of realist rationales. While it is generally beneficial to conclude bilateral trade agreements, Japan could and probably would have done without if it had not been for its neighbor. But not only China, but the changing political and economic environment as a result of the end of the Cold War as well as the “lost decade”<sup>26</sup> forced the Japanese to get more involved (Potter & Sueo, 2003; Solís & Urata, 2007). Japan has not overhauled its traditional approach of independence, though. To date, there are just a handful of agreements signed, the majority of which had been initiated by the counterpart (Munakata, 2001).<sup>27</sup> All in all, those free trade agreements account for about 7% of world trade. If compared with the US (36%) or even the EU (60%), the outcome appears very meager. Japan has usually found difficulty in concluding agreements with other nations due to its resistance to liberalize the agricultural sector and to allow access to its service sector such as in finance and insurance (Munakata, 2001; Sally, 2006). What is particularly interesting about the Japanese FTAs is their very name as they are officially referred to as EPAs, Economic Partnership Agreements. According to Sally (2006), this is a misleading notion merely concealing the weaknesses of Japanese agreements. Usually, free trade agreements would imply unrestricted trade. Given the resentments on part of Japan, however, EPAs are a welcome alternative to show one’s engagement in trade liberalization while keeping protection intact. This made Solís & Urata (2007) conclude that the

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<sup>26</sup> long-lasting domestic recession as a result of an asset bubble

<sup>27</sup> Despite most of the agreements being initiated by others, Japan has made efforts to conclude an EPA with the European Union (Asahi Shimbun, 2007). Negotiations started in mid-2007 and are seen as a response to similar developments between the EU and South Korea. Doubtlessly, Japan is afraid of falling behind, hence reacts on external changes in order to maintain the current power balance.

current quality of Japanese FTAs has been mediocre at best. Others also perceive the Japanese FTAs as expressions of Japanese reinforcement of other states' inclinations to supporting free trade. After all, Japan would be regarded as a sincere partner in international relations while at the same time it would probably benefit the most (Heginbotham & Samuels, 1998).

Finally, the issue of economic nationalism, in this case development aid, shall be touched upon. It is not only in the case of Japan that development aid is used for ulterior economic motives. However, Japan has been found to be a particular case in point. Several authors claim financial assistance and investments abroad under the framework of development aid were not solely used for poverty reduction (Heginbotham & Samuels, 1998; Solís & Urata, 2007). In fact, it was effectively applied to support the domestic economy either by means of favorable investment environments or cheap supply of raw materials. Heginbotham & Samuels (1998) attest Japan a certain degree of strategic investment which is in line with economic nationalism.<sup>28</sup> This corresponds with the "Basic Strategies for Japan's Foreign Policy in the 21<sup>st</sup> Century" concluded by a task force on foreign relations for the Japanese Prime Minister in 2002. Here, it is officially called for development aid to be "directly linked to Japanese interests" (Task Force on Foreign Relations for the Prime Minister, 2002). It goes on "the basis of all strategy [was] national interest ... seeking to become the core country" in East Asia (Task Force on Foreign Relations for the Prime Minister, 2002). Some strong sense of its own interest may not judge in favor of realism. After all, thinking entirely about its individual payoffs is perfectly in line with neoliberal institutionalist theory. However, trying to take over economic leadership in East Asia may leave a little different aftertaste.

Considering all this, economic nationalism seems clearly at hand. Indications for mercantile features have been found. However, the question on the very foreign economic policy cannot exhaustively be clarified. While this is mainly because of the paradoxical structure of Japanese foreign economic policy, neoliberal institutionalism has not been found applicable. On the other hand, there is a list of analogies to realism. Therefore, this will conclude that Japan's foreign economic policy cannot be easily defined but realism appears most meaningful.

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<sup>28</sup> See Helleiner (2002): economic nationalism does not stand for protectionism per se. It can be associated with any kind of economic policy which is led by the goals of state-building and meeting interests of the state. It is therefore to be looked at "in what ways do national identities and nationalism influence economic policy and processes" (List in: Helleiner, 2002, p. 326).

## 6. Hypotheses for further Analysis

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Based on the theory and the qualitative findings with respect to the foreign economic policy paradigms, three hypotheses shall be dealt with. Accordingly, this is based on the assumption of Japan being more realist, and the European Union being rather neoliberal institutionalist.

1. *Issues relevant to the parties: Due to different policy paradigms progress is impossible to be made, i.e. issues important to the EU cannot be resolved.*

This assumption conceives of progress a process of improving conditions. With respect to economic relations, economic issues over time will be considered. Have original motives been resolved by now? What issue has not been solved? Is there an entirely new agenda, or are certain issues still relevant?

If the parties in fact differ in policy paradigms the expected outcome would be meager. After all, one of the differences between realism and neoliberal institutionalism lies in the perception of international cooperation, with the latter being rather optimistic. If one party is, however, concerned with cooperation in general the potential for development seems limited. In order to make the reluctant party (i.e., Japan) cooperate, it seems inevitable to offer certain benefits/advantages. The asymmetric relationship between the EU and Japan, however, prevents the EU from having much to offer.

2. *Status Quo: Japan as defensive positionalist tries to maintain the status quo. Therefore the EU will lead the process.*

This builds on the definition of realists being reluctant to change. As Japan has been found to be rather in line with realist notions the very cooperation process should reveal a tendency towards maintaining the status quo.

In order to prove that argument, it is necessary to discover in how far either Japan undermines cooperation regarding economics and trade, or to what extent the EU is actually trying to give impetus to enhanced cooperation. Only the latter approach appears to be valuable since reluctance on part of Japan could hardly be proved. Since there is no evidence for a direct relation between the number of proposals and effectiveness it does not suffice to look for the actors' activism. Accordingly, the very nature of the proposal (i.e. constructive/destructive) and the content could well be of greater explanatory power.

3. *Japan as defensive positionalist focuses on relative gains. Thus, the economic relationship either has not changed since 1991, or has changed in favor of Japan.*

The third assumption deals with the fundamental development since 1991. Given a strong reluctance to changes in relative gains on part of Japan, one would either expect the economic relation not to change substantially or to change in favor of Japan. The former situation could occur if it was for a lack of ambition by both Japan and the European Union. The alternative outcome would imply a limited assertiveness on part of the EU. Here, one might assume that an “idealist” neoliberal institutionalist European Commission pushing for greater absolute gains while actually disregarding substantial gains for other parties involved will prove inferior to Japan. This would be in line with theory. Yet the outcome of almost two decades of closer cooperation would have proven mediocre if not detrimental from the EU’s point of view.

In order to clarify that issue, economic data over time will be consulted. This will show whether there was a change in economic terms at all, and if so, to which direction the shift has been.

## 7. Empirical Analysis: Foreign Economic Policy Paradigms

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### 7.1. Methodology

In order to establish a connection between the policy paradigms and EU-Japan cooperation, the process will be assessed by means of official documents. The Joint Declaration from The Hague, 1991 will be the starting point of the chronological analysis. Apart from that, Regulatory Reform Dialogue documents, as far as available, will be looked at in detail. A quantifiable description of the foreign economic policy paradigms is tried to be developed.

First, the content of the issue (e.g., policy proposal) will be evaluated. Here, a distinction will be made between “realist”, “neutral”, and “neoliberal”. This will be coded and summed up for both the EU and Japan in a second step. It is worth noting that a limited number of issues will be selected. Focus will be on Priority Proposals as opposed to Supplementary Proposals. Classifications, groupings etc. made by the EU or Japan will be adopted so as to keep the author’s bias at a minimum.

For the analysis, we build on Grieco’s (1990) framework. As shown, the main difference between realism and neoliberal institutionalism boils down to absolute and relative gains. Other aspects are either similar or hardly observable. While it would be possible to use those additional observables, it would not enhance our understanding of EU-Japan relations concerning realism and neoliberal institutionalism. Thus, the following key observables shall be of particular importance:

**Table 6: Indicators**

|                                  | <b><i>Neoliberal Institutionalism</i></b>   | <b><i>Realism</i></b>  |
|----------------------------------|---|--|
| <b><i>State Interest</i></b>     | To advance in utility defined individualistically, to achieve greatest possible absolute gains (i.e. market liberalisation, both home and abroad) | To enhance prospects for independence/survival, To achieve greatest gains and smallest gap in gains favoring partners (relative gains) (e.g. Protectionist tendencies at home, liberalization/indifference abroad) |
| <b><i>Nature of Proposal</i></b> | Rather constructive   | Potentially destructive  |

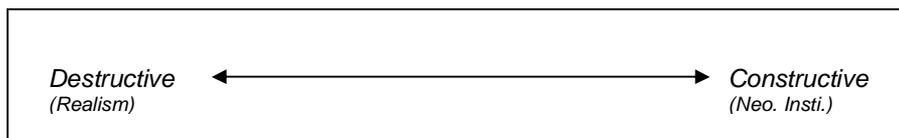
As for state interest, neoliberals are concerned with absolute gains. In contrast, realists emphasize gaps in payoff which could generate relative gains to others. Looking at upsides and downsides from the proposer’s perspective only does not suffice. The counterpart’s position must be taken into account here, too. What would the expected observation in EU-Japan relations then be? Realist

proposals would seek to generate gains for the proposer, or minimize potential losses in direct relation with its counterpart. This might be observed by either propositions creating losses for the counterpart only, or benefits for the proposer. Proposals in line with neoliberal institutionalism would also entail gains for the proposer. However, potential gains for the counterpart are neglected, hence are not important in decision-making. Accordingly, we may hardly observe neoliberal institutionalism at work, but solely depend on a process of elimination. Hence, if a relative gains approach cannot be proven (i.e. gains for the counterpart are very likely) neoliberal institutionalism will be accounted for. If there is no indication in favor of either of them, we shall count a “neutral” score.

Finally, the nature of the proposal determines the likelihood of supporting cooperation. That is, proposals may be classified in constructive and destructive (see Image 1). While the former creates an environment of trust and reciprocity which favors cooperation through mutual benefit, destructive initiatives pursue goals regardless the other’s concern. Those are likely to create obstacles to closer cooperation, e.g., if opinions vary too greatly. Hence, it is interesting to see how contentious certain issues will be. The connection to the two theories can be established on the basis of the gains approach. That is, realist approaches are more likely to contain destructive issues. This is because the prevention of gaps in payoff inevitably limits the possibility to cooperate with each other. Neoliberal institutionalism, on the other hand, originates from liberalism, hence is relatively optimistic about international cooperation in the first place. Accordingly, constructive approaches should be the rule as cooperation is regarded as being a long-term endeavor.

Particularly in the case of the EU, we shall take into account that some proposals from Japan may not be possible to be dealt with by the Commission as is the case if Member States hold competence. In those cases, it shall be neither destructive (realist) nor constructive (neoliberal institutionalist), but neutral. If however, a proposal encourages further European integration (e.g., common standards, central authorities), it shall be counted as constructive to cooperation as it would further strengthen the integration process and so the European Commission, which is the negotiating partner in this case.

**Image 1: Policy distinction**



## **7.2. Analysis of Summit Documents**

Official declarations usually convey a general commitment of the actors only. Here, EU-Japan Summit documents are no exception. Accordingly, the analysis in terms of realism and neoliberal institutionalism may not enlighten the discussion dramatically as few contentious issues would be mentioned.

Having studied the content of the summit documents from 1996 to 2008, this assumption holds

true. The tone is usually general and does not allow for an in-depth evaluation. In addition, the topics were not exceptional either. For the most part, both parties agreed on generally acknowledged notions like the importance of the WTO and cooperation in science and technology, hence international cooperation. While this could imply neoliberal institutionalism, the indication seems weak. Thus, little can be said about realist and neoliberal institutionalist tendencies. Nonetheless, few sections make reference to either the EU or Japan. Based on that, an overall tendency of policy paradigm has been tried to be established.

As for the EU, issues ranged from the trade deficit with Japan, FDI in Europe and Japan to general support for structural reforms in Japan. While particularly the first two issues give little weight in favor of either realism or neoliberal institutionalism, the ongoing push for de-regulation in Japan does even more so. Provided that reforms both liberalize the economy and enhance competitiveness (see Summit 2008, i.e., Support for Japan's Financial Services Agency's December 2007 Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets), the Union's policy appears slightly neoliberal (institutionalist). Liberalization would offer better investment opportunities for foreign, say European business. While this would be a gain for the European Union, the increased competitiveness on part of the Japanese economy could equally outweigh the initial benefit which may change the power balance long-term. After all, disentangling *Japan Inc.* could help lift the economy out of a period of sluggish growth. Accordingly, this issue seems to be largely brought up by the EU on the basis of individually defined concerns. While concerns about gaps in payoff may be observed in the case of trade deficits, there is an overall understanding that the EU's standpoint is defined individualistically and bears a rather constructive nature (i.e. not contentious) as it is in line with the Japanese agenda.

With respect to Japan, inward FDI, the EU's trade deficit with Japan, and the European integration process, especially the Economic and Monetary Union (EMU) were dominating concerns. Interestingly, the issues seem to be largely in response to earlier statements by the EU. Particularly in the case of inward FDI and the trade deficit, a policy of appeasement may be acknowledged (see e.g., Japan is willing to attract more FDI; the trade deficit would considerably decrease long-term). Japan refers to certain issues *after* the EU, hence *reacts* on previous summits (see Table 7).<sup>29</sup>

Furthermore, Japan has raised concerns about "fortress Europe". This case is, however, different from the issue on Japanese liberalization. Whereas the latter seems mutually beneficial, here the situation differs insofar as Japan does not seek to gain but is merely careful not to lose. In addition, the EU itself would neither gain nor lose considerably either. Thus, the Japanese position seems partly motivated by realist power considerations based on gaps in payoff.

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<sup>29</sup> Note: Japan also expressed agreement or disagreement much less frequently than the EU.

**Table 7: EU-Japan Summits: Economic and Trade Issues**

| Year & Location | Content  | EU Proposals   | Tendency                             | Japan Proposals   | Tendency   |
|-----------------|--|--|--------------------------------------|---|--|
| 1996, Tokyo     | Deregulation (both), FDI WTO (predominance: accession China), industrial cooperation and consultation.   | FDI (support Japan Investment Council) to foster inward FDI in Japan; encourage FDI in EU;       | Neoliberal Institutional, or Realist | n.a.  | n.a.   |
| 1997, The Hague | EMU, EU enlargements, deregulation and structural reforms (Japan), growing trade deficit (promotion EU Gateway to Japan programme, both), market access (both), FDI, Mutual Recognition Agreement (MRA), WTO (predominance, but disputes should be solved bilaterally) | FDI (encourage Japanese FDI in EU), Trade Deficit (growing, action by Japan demanded)            | Neoliberal Institutional, or Realist | FDI (desire to attract more inward), Imports (medical devices: acceptance of EU quality testing),   | Neoliberal Institutional, or Realist               |
| 1998, Tokyo     | Asian economy, EMU, Trade Disputes (some successfully solved), FDI, Deregulation (Japan); MRA, IPR   | Trade Deficit (growing, action by Japan demanded). Deregulation (stressing market access issues) | Neoliberal Institutional, or Realist | EMU (should benefit international community as a whole, not fortress), Trade Deficit (will be solved long-term by structural reforms), Deregulation programme from 1998 onwards | Neoliberal Institutional, but more towards Realist |
| 1999, Bonn      | EMU, Yen (internationalisation), WTO, MRA, EU-Japan Business Dialogue Round Table  | Structural Reform (EU: support for Japan, stressing market access issues).                       | Neoliberal Institutional, or Realist | n.a.  | n.a.   |
| 2000, Tokyo     | WTO, International Monetary & Financial System, Market Access, FDI, ICT (cooperation), Competition Policy (cooperation), Business Dialogue, Consumer Dialogue  | n.a.   | n.a.                                 | n.a.  | n.a.   |
| 2001, Brussels  | Action Plan, WTO (Doha Round), Structural Reforms (Japan) EMU, FDI   | Structural Reform (EU: strong support)   | Neoliberal Institutional, or Realist | EMU & Enlargement (should benefit international community as a whole, not fortress), FDI (more EU investments welcome)  | Neoliberal Institutional, or Realist               |
| 2002, Tokyo     | WTO (Doha Round, US government, Russia), EU Enlargement Regulatory Reform Dialogue (RRD), Financial Regulations, Agreement "Cooperation on Anti-Competitive Activities"  | n.a.   | n.a.                                 | n.a.  | n.a.   |

| 2003, Athens     | FDI ("Japan-EU Initiative on Investment"); EU Enlargement; Agreement "Cooperation on Anti-Competitive Activities"; WTO (Doha Round)  | Structural Reform (support particularly for improving investment environment and liberalising business-related services)  | Neoliberal Institutional, or Realist | Lisbon process (i.e. reform of financial, product and service markets), EU Enlargement (concerns, complexity of issues), FDI (inward; strengthen JETRO) | Neoliberal Institutional, or Realist |
|------------------|--|---|--------------------------------------|---|--------------------------------------|
| 2004, Tokyo      | FDI ("Cooperation Framework for the Promotion of Japan-EU Two-Way Investment"), RRD, ICT, IPR, Public Procurement, Public-Private Partnerships, WTC (Doha Round), International Accounting Standards (Japan)   | n.a.  | n.a.                                 | n.a.  | n.a.                                 |
| 2005, Luxembourg | WTO (accessions), RRD (visa, employment), FDI, International Accounting Standards (Japan: accounting, medical devices), IPR, REACH, ICT, Planned Agreements (Science & Technology; Customs Cooperation), ITER, Industrial Cooperation, Public Procurement              | n.a.  | n.a.                                 | n.a.  | n.a.                                 |
| 2006, Tokyo      | Structural Reforms (Japan), Market Access (SME), RRD, FDI, International Standards (Japan: accounting), Public Procurement (open and competitive), Competition Policy (Japan Fair Trade Commission & European Commission; cooperation), "Japan-EJ/ATOM Agreement", IPR | Transport (air, land, maritime; more cooperation, legal certainty. )  | Neoliberal Institutional, or Realist | n.a.  | n.a.                                 |
| 2007, Berlin     | WTO (Doha Round), IPR, ICT, ITER, RRD  | Transport (air; legal certainty)  | Neoliberal Institutional, or Realist | n.a.  | n.a.                                 |
| 2008, Tokyo      | Prosperity in EU/Japan through Innovation, Protection of IPR, work towards greater mutual recognition, cooperation in civil aviation   | Accounting standards; EU decision by end of 2008, Support for Japan's Financial Services Agency's December 2007 Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets | Neoliberal Institutional             | n.a.  | n.a.                                 |

### **7.3. Regulatory Reform Dialogue**

In contrast to the summit documents, proposals from the RRD provide greater insights into each actor's agenda. Instead of general statements, specific issues are brought up. This helps determining either policy paradigm. Nevertheless, the analysis was still rather limited because of the fairly crude distinction of state interests and the nature of the proposal. Yet, the downside of that finds itself in the very fundamentals of realism and neoliberal institutionalism. As said before, they may be fundamentally different in terms of the perception of international relations and cooperation. When compared, however, little can be observed but the most striking determinant of relative and absolute gains, respectively.

The analysis of the issues within the RRD has led to the following outcome (see Table 8 and Table 9): The European Union's foreign economic policy has been found to be generally in line with neoliberal institutionalism. The issues range from regulations regarding FDI, government procurement and privatizations, to international accounting standards, financial services, and healthcare and cosmetics. Here, proposals that resemble the Japanese authorities' own agenda (e.g., postal privatization) and trade issues have to be distinguished. The former are usually little contentious and offer potential gains for both. Trade issues, however, are different in that they relate to opening up a rather closed market. While issues such as the import of leather are extremely realist (i.e. no gains for Japan), the greater part on financial services, investment environment and competition policy would indeed generate mutual benefits. The EU does seek to expand its reach into foreign markets. The EU does, however, certainly not intend to create substantial gains for the Japanese – which it possibly would through disentangling the market actors – if it was not confident of generating reasonable gains itself. As the current reach of European business into the Japanese market is limited, it seems as if the EU simply tries to have its foot in the door.

Japan, on the other hand, has been found to adopt a more realist approach. Again, not all issues were concerned with trade disputes. While the Japanese also addressed anti-dumping investigations and food safety regulations that undermine Japanese business activities, there is an abundance of proposals that is solely administrative (e.g., visa, social security). Nevertheless, just like in the case of trade issues, most of them have been found to be mainly beneficial to Japanese business. If Europeans or other third parties could benefit, the analysis has taken account of it. Moreover, a considerable number of proposals could not be measured in terms of nature, as many relate to Member States' competences, hence the score "neutral".

**Table 8: Analysis: European Union Priority Proposals**

| Year         | Issue  | State Interest | Nature        | Overall       |
|--------------|--|----------------|---------------|---------------|
| 1998         | Administrative (policy-making consistent with market economy)  | -              | -             | -             |
|              | Investment (restrictions for foreign business, stricter enforcement of Anti-Monopoly Act)  | -              | +             | 0             |
|              | Distribution (Anti-Monopoly Act, clear and accessible appeals procedure)   | -              | -             | -             |
|              | Competition Policy (AMA: pursuit of violations, increase punishments, suppression of exemptions)                                       | -              | -             | -             |
|              | Construction (licensing: procedure, costs)   | -              | -             | -             |
|              | Agriculture/Food (recognition EU single market, transparency, simplification of license system)  | -              | -             | -             |
|              | Transport (transparency, simplification)   | -              | +             | 0             |
|              | Financial Services (Insurance, Securities, Asset management: transparency, Banking: global standards)                                  | +              | +             | +             |
|              | Professional Services (lawyers)  | -              | 0             | -             |
|              | Automotive (harmonisation with UN-ECE and EU regulations)  | -              | 0             | -             |
|              | Telecommunications & Pharmaceuticals (non-discrimination)  | -              | +             | 0             |
|              | Leather Footwear (increase of imports, market liberalisation)  | +              | +             | +             |
|              |  |                |               | <b>Total:</b> |
| 1999         | Administrative (policy-making consistent with market economy)  | -              | -             | -             |
|              | Competition Policy (AMA: pursuit of violations, increase punishments, suppression of exemptions)                                       | -              | -             | -             |
|              | Investment (restrictions for foreign business, stricter enforcement of Anti-Monopoly Act)  | -              | +             | 0             |
|              | Regulations (Telecommunications, Transport, Pharmaceuticals)   | -              | +             | 0             |
|              | Standards and certification (motor vehicles, foreign testing)  | -              | 0             | -             |
|              | Professional Services (lawyers)  | -              | 0             | -             |
|              | Leather Footwear (increase of imports, market liberalisation)  | +              | +             | +             |
|              |  |                | <b>Total:</b> | <b>3-</b>     |
| 2000         | Investment (market entry, establishment & operation costs)   | +              | 0             | +             |
|              | Administrative (reliable legal guidance, transparency)   | -              | -             | -             |
|              | Competition Policy (full application AMA, prosecution)   | -              | -             | -             |
|              | Telecommunications & Financial Services (Insurance, Banking, Asset Management; licensing procedures, non-discrimination, transparency) | +              | +             | +             |
|              | Transport (market liberalisation in air transport)   | -              | +             | 0             |
|              | Standards and certification (motor vehicles, foreign testing)  | -              | 0             | -             |
|              | Recognition of International Standards (accounting)  | +              | 0             | +             |
|              |  |                | <b>Total:</b> | <b>0</b>      |
| October 2001 | Administrative (transparency, accountability, predictability)  | -              | -             | -             |

| Year        | Issue  | State Interest | Nature        | Overall   |
|-------------|--|----------------|---------------|-----------|
|             | Investment (market entry, establishment & operation costs)   | +              | 0             | +         |
|             | Competition Policy (full application AMA, prosecution)   | -              | -             | -         |
|             | Telecommunications & Financial Services (Insurance, Banking, Asset Management)   | +              | +             | +         |
|             | Transport (Air, Sea)   | -              | +             | 0         |
|             | Regulations (cosmetics, pharmaceuticals)   | -              | +             | 0         |
|             | International Standards (motor vehicles, foreign testing)  | -              | 0             | -         |
|             |  |                | <b>Total:</b> | <b>1-</b> |
| <b>2002</b> | Administrative (transparency, accountability, predictability)  | -              | -             | -         |
|             | Investment (market entry, establishment & operation costs)   | +              | 0             | +         |
|             | Competition Policy (full application AMA, prosecution)   | -              | -             | -         |
|             | Public Procurement (construction sector, public-private partnerships: transparency, professionalism, non-discrimination) | -              | -             | -         |
|             | Journalism (access to information)   | +              | -             | 0         |
|             | Financial Services (Insurance, Banking, Asset Management)  | +              | +             | +         |
|             | Postal Services (transparent, reasonable, non-discriminatory licensing)  | -              | 0             | -         |
|             | Transport (Air, Sea)   | -              | +             | 0         |
|             | Regulations (cosmetics, pharmaceuticals)   | -              | +             | 0         |
|             | International Standards (motor vehicles, foreign testing)  | -              | 0             | -         |
|             | Food Safety (additives)  | -              | +             | 0         |
|             | Agricultural products (fruit)  | -              | +             | 0         |
|             |  |                | <b>Total:</b> | <b>3-</b> |
| <b>2003</b> | Administrative (transparency, accountability, predictability)  | -              | -             | -         |
|             | Investment (market entry, establishment & operation costs)   | +              | 0             | +         |
|             | Competition Policy (full application AMA, prosecution)   | -              | -             | -         |
|             | Public Procurement (construction sector, public-private partnerships: transparency, professionalism, non-discrimination) | -              | -             | -         |
|             | Journalism (access to information)   | +              | -             | 0         |
|             | Financial Services (Insurance, Banking, Asset Management)  | +              | +             | +         |
|             | Postal Services (transparent, reasonable, non-discriminatory licensing, independent regulator)                           | -              | 0             | -         |
|             | Transport (Air, Sea)   | -              | +             | 0         |
|             | Regulations (cosmetics, pharmaceuticals, medical devices)  | -              | +             | 0         |
|             | International Standards (motor vehicles, foreign testing)  | -              | 0             | -         |
|             | Food Safety (additives)  | -              | +             | 0         |
|             | Agricultural products (flowers)  | -              | +             | 0         |
|             |  |                | <b>Total:</b> | <b>3-</b> |
| <b>2004</b> | Financial Services (Insurance, Banking, Asset Management)  | +              | +             | +         |
|             | Postal Services (transparent, reasonable, non-discriminatory licensing, independent regulator)                           | -              | 0             | -         |

| Year                          | Issue  | State Interest | Nature        | Overall   |
|-------------------------------|--|----------------|---------------|-----------|
|                               | Public Procurement (construction sector, public-private partnerships: transparency, professionalism, non-discrimination)   | -              | -             | -         |
|                               | Regulations (cosmetics, pharmaceuticals, medical devices),   | -              | +             | 0         |
|                               | Administrative (non-discrimination to market entry, visa issues)   | +              | 0             | +         |
|                               |  |                | <b>Total:</b> | <b>0</b>  |
| <b>2005</b>                   | Investment (Article 821 of the Corporate Law, triangular mergers and the related taxation measures, translation of Japanese law)                                       | +              | +             | +         |
|                               | Financial Services (banking, insurance: system of reinsurance for Small-amount Short-term Insurance Providers, abolishment Art. 65 of the Securities and Exchange Law) | +              | +             | +         |
|                               | Telecommunication  | -              | 0             | -         |
|                               | Regulations (cosmetics, pharmaceuticals, medical devices)  | -              | +             | 0         |
|                               | Postal Services (fair competition)   | -              | 0             | -         |
|                               | Public Procurement (construction sector, single database: transparency)  | -              | -             | -         |
|                               | Administrative (non-discrimination to market entry, visa issues)   | +              | 0             | +         |
|                               | Food Safety (additives)  | -              | +             | 0         |
|                               | Agricultural products (flowers)  | -              | +             | 0         |
|                               | Transport (Air: ticket sales price)  | -              | +             | 0         |
|                               | Distribution (licensing: alcohol, retailers)   | +              | 0             | +         |
|                               | Leather (footwear)   | +              | +             | +         |
|                               |  |                | <b>Total:</b> | <b>2+</b> |
| <b>March 2006</b>             | Investment (Article 821 of the Corporate Law, triangular mergers and the related taxation measures)  | +              | +             | +         |
|                               | Financial Services (banking, insurance: system of reinsurance for Small-amount Short-term Insurance Providers)   | +              | +             | +         |
|                               | Regulations (cosmetics, pharmaceuticals, medical devices)  | -              | +             | 0         |
|                               | Postal Services (transparent, reasonable, non-discriminatory licensing, independent regulator)   | -              | 0             | -         |
|                               | Public Procurement (construction sector, public-private partnerships: transparency, professionalism, non-discrimination)   | -              | -             | -         |
|                               | Administrative (non-discrimination to market entry, visa issues)   | +              | 0             | +         |
|                               | Food Safety (additives)  | -              | +             | 0         |
|                               | Agricultural products (flowers)  | -              | +             | 0         |
|                               | Transport (Air, Sea)   | -              | +             | 0         |
|                               | Distribution (licensing: alcohol, retailers)   | +              | 0             | +         |
|                               | Leather (footwear)   | +              | +             | +         |
|                               |  |                | <b>Total:</b> | <b>3+</b> |
| <b>November/December 2006</b> | Investment (triangular mergers and taxation; Art. 821, Corporate Law; HR: residence permit; Public Comment Procedure: Transparency)                                    | +              | 0             | +         |
|                               | Public Procurement (construction)  | -              | -             | -         |
|                               | ICT (universal service system, AMA: promotion of competition)  | -              | 0             | -         |

| Year   | Issue  | State Interest | Nature        | Overall      |
|--|--|----------------|---------------|--------------|
|  | Financial Services (banking, insurance: system of reinsurance for Small-amount Short-term Insurance Providers, abolishment Art. 65 of the Securities and Exchange Law) | +              | +             | +            |
|  | Postal Services (fair competition)   | -              | 0             | -            |
|  | Transport (Air: bilateral service agreements and EU laws)  | -              | -             | -            |
|  | Regulations (cosmetics, pharmaceuticals, medical devices)  | -              | +             | 0            |
|  | Food Safety (additives, regionalisation, organic food certification etc.)  | -              | +             | 0            |
|  | International Standards (wood standards; packages of foodstuff)  | -              | 0             | -            |
|  |  |                | <b>Total:</b> | <b>3-</b>    |
| <b>2007</b>  | Investment (M&A; legality of branches; HR; transparency)   | +              | 0             | +            |
|  | Public Procurement (construction)  | +              | +             | +            |
|  | ICT (universal service system, AMA: promotion of competition; non-discrimination, transparency)  | -              | 0             | -            |
|  | Financial Services (banking, insurance: system of reinsurance for Small-amount Short-term Insurance Providers, abolishment Art. 65 of the Securities and Exchange Law) | +              | +             | +            |
|  | Postal Services (fair competition)   | -              | 0             | -            |
|  | Transport (Air: bilateral service agreements and EU laws; Sea),  | -              | -             | -            |
|  | Regulations (cosmetics, pharmaceuticals, medical devices)  | -              | +             | 0            |
|  | Food Safety (additives, regionalisation, organic food certification etc.)  | -              | +             | 0            |
|  | International Standards (Wood; Animal Health Food: intellectual property rights)   | -              | 0             | -            |
|  |  |                | <b>Total:</b> | <b>2-</b>    |
| <b><u>Overall Tendency of the EU Foreign Policy:</u></b> |  |                |               | <b>-1.36</b> |

**Table 9: Analysis: Japanese Priority Proposals**

| Year        | Issue  | State Interest | Nature | Overall |
|-------------|--|----------------|--------|---------|
| <b>1998</b> | n.a.   |                |        |         |
| <b>1999</b> | Administrative (driving licenses; visa issuance and work permits; certification: EU standards)   | +              | 0      | +       |
|             | Professional Services (Lawyers in France and Germany)  | +              | 0      | +       |
|             | Business (Commercial Law in France, Italy, the UK, Germany, Spain, Austria, Denmark; European Company Law Directive: Societas Europea; Merger Directive: uniformity) | +              | 0      | +       |
|             | Shipbuilding (subsidies to be abolished)   | +              | +      | +       |
|             | Standards and Certification  | -              | 0      | -       |
|             | Financial Services (loan restriction in Austria)   | +              | 0      | +       |

| Year                | Issue   | State Interest | Nature        | Overall   |
|---------------------|---|----------------|---------------|-----------|
|                     | Telecommunication (Germany, France)   | -              | 0             | -         |
|                     | Construction (Belgium)  | -              | 0             | -         |
|                     | Automobile  | +              | -             | 0         |
|                     | BSE (Japan not recognized as BSE-free)  | +              | +             | +         |
|                     | Food Safety/Pet Foods   | +              | +             | +         |
|                     | Labour regulations and Social Security (flexibility, wage systems, uniformity)  | -              | +             | 0         |
|                     | Environment (Directive on Waste Electronics and Electrical Equipment, Directive of End of Life Vehicle)   | -              | +             | 0         |
|                     | Patent Registration   | -              | -             | -         |
|                     | Tourism (tour guide requirements)   | +              | +             | +         |
|                     | Trade and Customs   | +              | 0             | +         |
|                     |   |                | <b>Total:</b> | <b>5+</b> |
| <b>2000</b>         | Administrative (driving licenses; visa issuance and work permits; certification: EU standards)  | +              | 0             | +         |
|                     | Professional Services (Lawyers in France and Germany)   | +              | 0             | +         |
|                     | Business (Commercial Law in France, Italy, the UK, Germany, Spain, Austria, Denmark; Merger Directive: uniformity)  | +              | 0             | +         |
|                     | Standards and Certification   | +              | 0             | +         |
|                     | Standards and Certification (uniformity; European Conformance Assessment Agreement between the EU and CEECs (early adoption, transposition of Directives))                | -              | 0             | -         |
|                     | Tourism (tour guide requirements)   | +              | +             | +         |
|                     | Shipbuilding  | +              | +             | +         |
|                     | Telecommunication (Germany, France)   | -              | 0             | -         |
|                     | Financial Services (common EU standards; language requirements: France, Germany; Taxation; credit card business: Austria)   | +              | 0             | +         |
|                     | Construction (Belgium)  | -              | 0             | -         |
|                     | Automobile  | +              | -             | 0         |
|                     | BSE   | +              | +             | +         |
|                     | Food Safety/Pet Foods   | +              | +             | +         |
|                     | Labour regulations (overtime and wage systems: Luxembourg, Italy, Spain, Belgium, Denmark)  | -              | +             | 0         |
|                     | Environment (Directive on Waste Electronics and Electrical Equipment, Directive of End of Life Vehicle, Belgium: Waste Law)   | -              | +             | 0         |
|                     | Trade and Customs (simplification, anti-dumping investigations)   | +              | +             | +         |
|                     | Taxation  | -              | 0             | -         |
|                     |   |                | <b>Total:</b> | <b>6+</b> |
| <b>January 2001</b> | Administrative (driving licenses; visa issuance and work permits; certification: EU standards)  | +              | 0             | +         |
|                     | Professional Services (Lawyers in France and Germany)   | +              | 0             | +         |
|                     | Business (Commercial Law in France, Italy, the UK, Germany, Spain, Austria, Denmark; Merger Directive: uniformity, European Company Law Directive: Societas Europea etc.) | +              | 0             | +         |
|                     | Standards and Certification   | -              | 0             | -         |
|                     | Tourism (tour guide requirements)   | +              | +             | +         |
|                     | Telecommunication (Germany, France)   | -              | 0             | -         |

| Year                | Issue   | State Interest | Nature        | Overall   |
|---------------------|---|----------------|---------------|-----------|
|                     | Financial Services (common EU standards; language requirements: France, Germany; Taxation; credit card business: Austria)   | +              | 0             | +         |
|                     | Construction (Belgium)  | -              | 0             | -         |
|                     | Automobile  | +              | -             | 0         |
|                     | BSE   | +              | +             | +         |
|                     | Food Safety/Pet Foods   | +              | +             | +         |
|                     | Labour regulations (overtime and wage systems: Luxembourg, Italy, Spain, Belgium, Denmark)  | -              | +             | 0         |
|                     | Environment (Directive on Waste Electronics and Electrical Equipment, Directive of End of Life Vehicle, Belgium: Waste Law)   | -              | +             | 0         |
|                     | Trade and Customs (simplification, anti-dumping investigations)   | +              | +             | +         |
|                     |   |                | <b>Total:</b> | <b>5+</b> |
| <b>October 2001</b> | Business (Commercial Law in France, Italy, the UK, Germany, Spain, Austria, Denmark; Merger Directive: uniformity, European Company Law Directive: Societas Europea etc.) | +              | 0             | +         |
|                     | Standards and Certification   | -              | 0             | -         |
|                     | Employment  | -              | +             | 0         |
|                     | Trade and Customs (anti-dumping)  | +              | 0             | +         |
|                     | Information   | +              | -             | 0         |
|                     | Professional Services (Lawyers)   | +              | 0             | +         |
|                     | Telecommunications (licensing fees Germany, interconnection, new entrants etc.)   | -              | 0             | -         |
|                     | Financial Services (loan restrictions: EU banks vs. Non-EU banks, Germany, France)  | +              | 0             | +         |
|                     | Construction  | -              | -             | -         |
|                     | Automobile (Directive of End of Life Vehicle a.o.)  | 0              | -             | -         |
|                     | Environment (Directive on Waste Electronics and Electrical Equipment)   | +              | +             | +         |
|                     | Foodstuffs (scallop)  | +              | -             | 0         |
|                     | Driving licences  | +              | 0             | +         |
|                     | Residence & Work Visas  | +              | 0             | +         |
|                     | Social Security (simplification for non-EU citizens)  | +              | -             | 0         |
|                     | Taxation  | -              | 0             | -         |
|                     |   |                | <b>Total:</b> | <b>2+</b> |
| <b>2002</b>         | Business (Commercial Law in France, Italy, the UK, Germany, Spain, Austria, Denmark; Merger Directive: uniformity, European Company Law Directive: Societas Europea etc.) | +              | 0             | +         |
|                     | Standards and Certification   | -              | 0             | -         |
|                     | Employment  | -              | +             | 0         |
|                     | Trade and Customs (Tariff distinction in case of camcorders)  | +              | +             | +         |
|                     | Information   | +              | -             | 0         |
|                     | EU Patent (early adoption)  | -              | -             | -         |
|                     | Financial Services (common EU standards; language requirements: France, Germany; Taxation; credit card business: Austria)   | +              | 0             | +         |
|                     | Professional Services (Lawyers)   | +              | 0             | +         |
|                     | Telecommunications (transparency if discretion for MS in amendment of domestic laws)  | -              | 0             | -         |
|                     | Construction (Belgium)  | -              | 0             | -         |
|                     | Automobile  | +              | -             | 0         |

| Year              | Issue   | State Interest | Nature        | Overall   |
|-------------------|---|----------------|---------------|-----------|
|                   | Tourism (tour guide requirements)   | +              | +             | +         |
|                   | Environment (Directive on Waste Electronics and Electrical Equipment, Directive of End of Life Vehicle, Belgium: Waste Law) | -              | +             | 0         |
|                   | Treatment of Japanese Residents (driving licences, working visa, social security)   | +              | 0             | +         |
|                   |   |                | <b>Total:</b> | <b>2+</b> |
| <b>2003</b>       | Business practices (Societas Europaeas' cross-border mergers)   | +              | 0             | +         |
|                   | Employment  | -              | +             | 0         |
|                   | Trade and Customs (tariff classification of digital machines)   | +              | +             | +         |
|                   | Information   | +              | -             | 0         |
|                   | Automobile  | +              | -             | 0         |
|                   | Financial Services (common EU standards; language requirements: France, Germany; Taxation; credit card business: Austria)   | +              | 0             | +         |
|                   | Professional Services (Lawyers)   | +              | 0             | +         |
|                   | Telecommunications (government involvement)   | -              | 0             | -         |
|                   | Environment (Directive on Waste Electronics and Electrical Equipment, Directive of End of Life Vehicle, Belgium: Waste Law) | -              | +             | 0         |
|                   | EU Patent system (early adoption)   | -              | -             | -         |
|                   | Taxation  | -              | 0             | -         |
|                   | Treatment of Japanese Residents (driving licences, working visa, social security)   | +              | 0             | +         |
|                   |   |                | <b>Total:</b> | <b>2+</b> |
| <b>2004</b>       | Administrative (introduction of "No Action Letter" system in EU)  | +              | -             | 0         |
|                   | Professional Services (Lawyers in France and Germany)   | +              | 0             | +         |
|                   | Financial Services (confirmation of equivalence Japanese and international accounting standards)                            | +              | -             | 0         |
|                   | Environment (REACH: predictability, licensing)  | -              | +             | 0         |
|                   | Administrative (driving licenses; visa issuance at EU level)  | +              | 0             | +         |
|                   |   |                | <b>Total:</b> | <b>2+</b> |
| <b>2005</b>       | Administrative (visa issuance at EU level)  | +              | 0             | +         |
|                   | Environment (REACH: predictability, licensing)  | -              | +             | 0         |
|                   | Administrative (Regulations: simplification)  | -              | 0             | -         |
|                   | Financial Services (confirmation of equivalence Japanese and international accounting standards)                            | +              | -             | 0         |
|                   |   |                | <b>Total:</b> | <b>0</b>  |
| <b>March 2006</b> | Environment (REACH: predictability, licensing)  | -              | +             | 0         |
|                   | EU Patent system (early adoption)   | -              | -             | -         |
|                   | Professional Services (Lawyers)   | +              | 0             | +         |
|                   | Administrative (driving licenses; visa issuance at EU level)  | -              | 0             | -         |
|                   | Telecommunications (quota system in broadcasting, but MS competence)  | 0              | 0             | 0         |
|                   | Construction (Belgium)  | -              | 0             | -         |
|                   | Financial Services (confirmation of equivalence Japanese and international accounting standards)                            | +              | -             | 0         |
|                   | Business practices (Societas Europaeas' cross-border mergers)   | +              | 0             | +         |
|                   |   |                | <b>Total:</b> | <b>1-</b> |

| Year   | Issue  | State Interest | Nature        | Overall    |
|--|--|----------------|---------------|------------|
| November/<br>December<br>2006                                  | Administrative (visa issuance at EU level)   | +              | 0             | +          |
|  | Environment (REACH: predictability, licensing)   | -              | +             | 0          |
|  | Financial Services (confirmation of equivalence Japanese and international accounting standards) | +              | -             | 0          |
|  | Trade (exclusion of camcorders and box cameras from scope of anti-dumping investigation)         | +              | +             | +          |
|  | Food Safety (lifting ban on export of Japanese meat to EU)                                       | +              | +             | +          |
|  |  |                | <b>Total:</b> | <b>3+</b>  |
| 2007   | n.a.   |                |               |            |
| <b><u>Overall Tendency of the Japanese Foreign Policy:</u></b> |  |                |               | <b>2.6</b> |

#### 7.4. Outcome: Hypotheses in Relation to the Analysis

In order for us to see the relation between a difference in policy paradigms and cooperation, qualitative and quantitative findings as provided above need be incorporated in answering the hypotheses.

##### **Hypothesis 1:**

*Issues relevant to the parties: Progress is impossible to be made, i.e. issues important to the EU cannot be resolved.*

For the observation, the relevant period starts with the Hague Declaration in 1991. Unfortunately, relevant documents were not always available if even released.

As said, little could be taken from summit documents. Statements were generally vague and little specified. Besides, except for minor recommendations to the counterpart, both parties worked on policy coordination but did not engage in constructive policy-making. In contrast, the RRD was the arena where issues important to the parties were raised. Based on the documents, one may assume that both did so in a fashion regardless the contentiousness of the topic. Nevertheless, this alone may not suffice to speak of progress in its original sense. Indeed, some issues could be resolved. These, however, did not require much of an action on part of Japan, e.g., access to information (i.e., journalism). The greater part of the issues important to the EU could not be resolved. Financial services and fair competition remain hot topics on the agenda of the RRD. The overall success of EU-Japan economic cooperation seems very doubtful. The findings to this hypothesis are also in line with statements from official bodies (EU Delegation, 2008; German Embassy, 2008).

**Hypothesis 2:**

*Status Quo: Japan as defensive positionalist tries to maintain the status quo. Therefore the EU will lead the process.*

According to the data provided above, the assumption cannot be confirmed. Based on summit and RRD documents, the European Union has not been found to be substantially more active than Japan. While the EU seems slightly more outspoken during summits (i.e., negligibly greater tendency to refer to the counterpart), both parties actively engage in the RRD. With respect to the nature of proposals, Japan has indeed been found to be slightly more constructive to the cooperation process than the EU. This, however, is likely to be result of the asymmetric economic relationship. That is, it is mainly the EU that faces serious challenges in the foreign market, hence the more contentious issues.

**Hypothesis 3:**

*Japan as defensive positionalist focuses on relative gains, therefore the economic relationship either has not changed since 1991, or has changed in favor of Japan.*

For the most part, Japan did indeed focus on relative gains. Accordingly, the economic outcome of two decades of closer cooperation between the EU and Japan has been mediocre. The trade deficit has not been resolved. One may argue the issue had not been on the agenda in recent years. However, the situation has in fact worsened since 2002 (Eurostat, 2006). A constant increase of the trade deficit with Japan has been observed. Hence, the initial motive for closer cooperation has been lost sight of over the years. Furthermore, remaining issues important to the EU have not greatly been resolved either. Similarly, shares of imports and export have not changed substantially during that period. The EU could increase shares in the Japanese market but it remains far from being a dominant player.

## 8. Concluding Remarks

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The European Union and Japan share similarities in that both struggle for making their voice heard in the global arena. As political dwarfs and economic giants, they try to overcome tensions due to trade deficits and anti-dumping procedures through a systematic cooperation process. This was begun in 1991 in The Hague and has been largely positive ever since. While EU-Japan relations evolved into little more than an “accumulation of modes of understanding, accepted responses and channels for communication” (Gilson, 2000, p. 168), the relationship grew in maturity. The range of issues has continuously expanded. Therefore, the cooperation process has been successful politically.

The overall success, however, cannot conceal the fact that one of the core motives for embarking on closer policy coordination has not been met: establishing greater reciprocity in economics and trade. The asymmetric economic relationship in favor of Japan has not changed.

Reasons for the lack of progress are supposed to be found in the very approaches to global economic politics, i.e. foreign economic policy paradigms adopted. On the basis of a literature review, this work determined the very foreign economic policy paradigms and sought to find evidence empirically.

With respect to realism and neoliberal institutionalism as embodied in foreign economic policies, the analysis has shown different approaches certainly play a role in international cooperation. If it is for at least one party to pursue a realist agenda, progress will be made piecemeal at best. However, this does not conclude two neoliberal institutionalists would cooperate more smoothly. The level of cooperation to a great extent depends on the very issues at stake and respective opinions on that matter. Hence, the creation of trust through a step-by-step process of continuous policy coordination is as likely with realists as it is neoliberal institutionalists. In EU-Japan relations, the neoliberal institutionalist party has in fact been identified to be the less constructive one. This is most likely to be the result of the asymmetric relationship between the EU and Japan which forces the EU to address more contentious issues.

Arguably, reasons for differences between the European Union and Japan when it comes to power considerations may be found in two aspects. First, as has been shown, the EU-Japan economic relations are generally asymmetric. In strictly bilateral trade, Conybeare's (1987) category has been identified to be more appropriate. Secondly, the actors' current position in global power politics may be just as decisive here. Japan sees neighbors like China and India emerge dramatically. Japan is likely *to be headed south* in the region. Therefore, it may not be in Japan's interest “to maximize power [at all costs] but to maintain [its] position in the system” (Waltz in: Grieco, 1990, p. 40), hence the sensitivity to relative gains.

The European Union confronts with a different situation. It has never enjoyed more power. Its influence is continuously growing to the extent that both the European integration process develops and others look for alternative partners to the US. As a matter of course, there is far greater ambition at the Community level to maximize power and to expand one's reach (to eventually bring about a change in position), hence the focus on absolute power gains. For the time being, the European Union

had better continue to engage in a constructive cooperation process with Japan so as to strengthen the weak side of the triangle. After all, gradualistic cooperation is superior to no cooperation as it allows for more fruitful relations in the future (Long, 1996). This should remain the rationale not only in order to live up to NPE aspirations, but especially if the EU is to cope with the growing world responsibilities incumbent on Europe. Given the Japanese reluctance to liberalize, the EU does not necessarily have to adopt a more assertive stand in trade negotiations as proposed by Trade Commissioner Mandelson. What may be more effective is concluding agreements with third parties. As in the case with South Korea, this may impose further liberalization upon Japan through the back-door.

Considering all this, a clear-cut explanation as to the role of policy paradigms in international cooperation cannot be given. Theoretically, cooperation among neoliberal institutionalists is more likely to involve substantial developments. As has been shown, there is a high degree of case-sensitivity. In the end, it all boils down to the very issues involved and the overall relation between actors.

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