

Japan's Integration Efforts, with Particular Attention to the Japan-EU Free Trade Agreement*

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1. Introduction

In the 1970s and for many years, people used to talk about the triple world economy, the triad, in which, the United States and the European Community, and Japan with its leading role in Asia and its economic partner were referred to as the third pole. It came about because in 1980 Japan produced nearly 10 percent of the world's GDP. The attention of the European Community also turned to Japan, especially as Japan was the integration's third largest export market and second largest source of imports until the millennium (by and large the third most important partner after the US and Switzerland).

Japan used to be the most important partner of the European Union on the Asian continent. From being the second-third partner of the EU-15, Japan shifted to be the fifth partner of the EU-25 in 2006 (China overtook Japan in its total turnover in 2003 and Russia in 2004). In case of the EU-28, it is only the sixth or seventh partner. There are several reasons for this. On the one hand, the crisis in Japan in the early 1990s, which further deepened in 1997: economic growth rate around 0-1 percent, foreign trade did not expand to the same extent as before; it stagnated (export growth rate slowed down, while imports increased over several years). Secondly, the rapid economic growth of Far Eastern competitors over Japan has to be recognized. China and South Korea need to be highlighted, but several ASEAN (Association of Southeast Asian Nations) member states have stepped up their economic and trade relations with the European Union to a much greater extent than Japan. Finally, it is worth pointing out that Japan had previously built up its foreign trade relations primarily with the EU-15 Member States, and established only very deliberate and slowly developing trade relations with the new members, so its weight in total foreign trade decreased.

The world changed with the millennium: the Soviet Union dissolved, and the group of socialist countries ceased to exist. China has once again become a major player in

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the world economy and world trade, and an important competitor to Japan in the Far East. Today, we cannot talk about the triad in the same sense as 40 years ago. It is no longer possible to treat the world economy as the “playing field” of the former three prominent players. China has become a new player among the Three, and India is getting stronger and growing in influence. Furthermore, let’s not forget about Russia, which, although economically is less powerful, remains one of the world’s largest energy exporters (and is still a major military power).

As a result of the re-regionalism of the ‘80s, integration tendencies developed in the Far East too: China and Japan, however, are late-starters in integration efforts, belonging to a so-called group of late-comer countries. Japan’s economic and financial problems forced its regional and global activity to be restrained, and China had to deal with its internal problems in the first place. China was the first to start off in the field of integration efforts, followed by Japan. China’s expansion is facilitated by strong capital exports, followed by the “One Belt, One Road” initiative announced in 2013, which is significantly more than a simple infrastructure development project.

In addition, we must talk about the United States’ foreign economic policy over the past two years. Trump’s “America first” economic policy places strong emphasis on building bilateral relations instead of the previous multilateral approach: they reformed the NAFTA¹ agreement, terminated the TPP (Trans-Pacific Partnership) contract, and suspended the TTIP (Transatlantic Trade and Investment Partnership) negotiations with the EU. The US using its economic power, shapes its bilateral relations and lives with its economic power and occasionally abuses it.

After the turn of the millennium, the European Union and Japan have also faced serious challenges: the resolution of their internal concerns and the problems of their external relations are a difficult task, which has been placing a heavy burden on both parties. The European Union has experienced a difficult period: 13 new Member States had to be merged into the framework of integration; the present threat of Brexit; budget disputes taking place; and migration problems strongly divide Member States and sometimes protectionist tendencies can be observed in their relations. Japan faces other types of difficulties, but important challenges as well: after the 1997 crisis, the economy could still not be dynamized, thus losing its position in the world economy and world trade. It is a particular problem that in the ‘90s, it did not open up enough to the new democracies in Eastern Europe, and now this is visible in its EU relations.

1 North American Free Trade Agreement

At the same time, Japan and the European Union are committed to developing partnerships because they are extremely important partners in both commercial and capital relations. As the most decisive players in the world economy, they are linked by special interdependence and global responsibility. They both support the strengthening and further development of the global trading system, even at the expense of occasional escalation of conflicts of interest with the United States. Their reciprocal relations have intensified in recent years, and they are interested in deepening their relations, both economically and politically. The EU wants to be present in the expanding Asian market partly through Japan, and Japan wishes to reduce US influence in the region through the strengthening of its partnerships with the EU.

In the Triad relationship, the European Union avoided formal bilateral agreements in its relations with both Japan and its key partner, the United States of America. Their institutionalized bilateral relations were intended to be nurtured at the highest level by the EU-Japan Summit held once a year, and at meetings held twice a year at ministerial level. At the multilateral level, several forums allow contacts to be maintained, so politicians and economic professionals can assemble at ASEM meetings every two years, G7 and G-20 meetings every year, and forums of UN, OECD, WTO, and politicians.

Although, integration ideas between the former triad and the new prominent players existed, the competition was mostly the winning attitude in the dialectics of competition versus cooperation. Smaller and bigger agreements were made, but comprehensive free trade agreements between the "big ones" to date only one has been concluded: between Japan and the EU.

The main question of this study is around what has happened in Japan, which had no bilateral free trade agreement with a country (or group of countries) until the millennium. What are the motivational factors that displaced Japan (and indeed the entire Far East) from integration apathy? Are there any common cultural, civilization roots that in the early 21st century have caused strong integration tendencies to be launched in the region, or are strong economic factors behind it? Among the world's leading powers, why was the EU the first to conclude a bilateral free trade agreement? What historical, political, economic background does the agreement have?

2. Japan's Integration Efforts

The millennium reached Japan in a difficult situation: it was characterized by an economic downturn, its former partners were opening up to other partners, micro-integration links were loosening with ASEAN companies, China was getting stronger (also admitted to the WTO), and Japan's controversy and debates with the US were getting deeper and deeper. The aging, declining population has been a social problem; on the one hand, the working-age population decreased, so there have been signs of labor shortage, but on the other hand, the increasing volume of pension expenditures has been affecting the budget. Another problem in the increasing well-being has been the alienation of the younger generation from the national (including Confucian) traditions, the low level of social reproduction and its decreasing tendency. Just at the time, educated Japanese people were realizing that China, after being despised for a century and a half, is the root of Japanese culture too.

Globalization was interpreted as the world opening up, which was an opportunity for Japan, however, they were not opening up, did not allow foreign capital, occasionally applied the highest tariffs of the developed world (e.g. rice, other foods), and they closed up. Japan had difficulties in adapting to the changed international environment, e.g. could not really break into the East and Central European region which was open for globalization. It was a major change that China which was censured before, first in terms of exports and then production, got ahead of Japan.

Japan's response has been peculiar: it is characterized by growing isolation in the fields of culture and civilization. They emphasize the Japanese cultural identity, its uniqueness, its distinction from both Western and other Asian cultures. (However, Confucianism is an important link between Asian civilizations). They consider their previous economic results as the result of their civilization, which stands above Western culture that is culturally and socially declining (Huntington, 2002). Japan has moved away from Western (USA) thinking, turning towards Asia. They would like to preserve the economic superiority of Asia, including Japan's leading role in it, in such a way so that the growth pole of the 21st century shall be East Asia, and therefore they open up economically. This is partly due to the compulsion; due to the 1997-98 crisis, foreign capital must be admitted, and the economy's ideology must be changed. It is a fact that Japan, which has previously been excluded from all integration, will open up: it allows foreign working capital and is starting with an integration strategy. Thus, a combination of civilization and economic constraints are the triggers for integration initiatives.

The post-millennial period was the beginning of the opening for integration: actions were taken to save Japanese big companies in trouble due to crises (1997-1998, 2007-2009), allowing foreign direct capital inflows. However, inbound capital has been still significantly less than outgoing capital. In Japan, FDI accounted for just over 4 percent of the GDP in 2016, which is a remarkably low level for the world's developed and less developed countries as well. At the same time, the outflow of capital has been USD 120-150 billion a year in recent years, making Japan the world's fourth largest capital exporter (UNCTAD World Investment Report, 2017). The consequences of the 2008 global economic crisis are the stagnation of world trade, a significant drop in demand in developed countries, which has also led to further easing of micro-integration relations in the East Asian region.

A far-reaching step in the past few years has been the so-called Abenomics, associated with the Prime Minister of Japan, Abe Shinzo, according to which the economy is the most vital priority. The program identifies three main directions: monetary easing, budget loosening, and structural reforms in all areas of the economy. The new economic policy has also triggered changes in Japan's foreign policy. In addition to the earlier multilateral approach, bilateral thinking has also emerged: see the failure of the WTO Doha Round; the competition between China and Japan for Asia's leading role. The former US integration strategy has also contributed to a change in strategic thinking: the TTIP started between the US and the EU, and later the TPP negotiations motivated Japan as well. In 2017, the Trump government backed out from these, but Japan continued its talks with the EU. At the same time, at the Asia-Europe Summit (ASEM), the central point is the expansion of trade relations, i.e. the EU would also like to expand its foreign trade relations with the countries of the South East Asia region. From Japan's point of view, the development of trade with the EU is clearly positive, but the EU's stronger presence in the region could jeopardize Japan's interests. Therefore, it has also become a priority for Japan to bring its formerly micro-integration and corporate relationships into national, international (inter-state) relations (a key motive for integration with the countries of the region). It is important to note that, under GATT / WTO rules, exemption from customs duties in the free trade area should not be extended to other WTO members. The WTO operates as a general system, but the actors take advantage of loopholes to improve their own situation. Countries can expand their trade in products and services through such bilateral agreements, preserve their market advantages in geographically close countries, and secure their raw materials and energy imports. This has also played a role—still does—in the fact that almost all countries and integration of the developed world (EU, USA) are using such a tool to improve their market positions.

Japan does the same: in its case, besides its economic role played in the Asian co-operation, strengthening political presence, and improving cooperation with neighbors based on mutual trust and benefits may still be a matter. Furthermore, in its competition with China, Japan wants to improve its position to become the leading economic power in the region, in order to broaden its room for maneuver with new bilateral or multilateral agreements.

Japan has concluded comprehensive economic cooperation agreements with a number of countries in the region to preserve or improve its trading positions safely. Agreements are not uniform, the Japanese economic diplomacy approached issues pragmatically, and the content, scope, and extent of contracts are different. Trade in goods and/or services, rules of origin protection, protection of intellectual property rights, investment protection, double taxation clauses have also been included in the agreements (this can be explained by the fact that the concept of RTA (Regional Trade Agreement) or EPA (Economic Partnership Agreement) are becoming more common in the literature, which are slightly different from previous terminology of FTAs (Free Trade Agreement). The purpose of the study is not to analyze the individual agreements in detail (the text of the agreements can be found on the website of the Japanese Ministry of Foreign Affairs). I just highlight one thing: the learning process is recognizable. Initial agreements were strictly industrialized free trade agreements, they expanded, changed in the economic field, and in later agreements, civilization, social (e.g. environmental) issues appear too.

3. Japan's Free Trade Agreements

Japan had 17 signed regional trade agreements by the end of 2018, the EJEPA with the EU entering into force in the beginning of 2019, and the CPTPP with the Pacific-rim countries, which have not yet entered into force. Japan has the following free trade agreements: ASEAN as a multilateral organization, and separate agreements with its seven member states; from the group of developed countries (OECD) agreements with Australia, Chile, Mexico and Switzerland; from the developing countries agreements with India, Mongolia, Peru; and an expected agreement with the EU; and the Pacific-rim countries—the CPTPP, the Trans-Pacific Partnership agreement.

Table 1
Japan Regional Trade Agreements (2018)

Partner	Date of signature	Date of entry into force
Singapore	January 2002	November 2002
Mexico	September 2004	April 2005
Malaysia	December 2005	July 2006
Philippines	September 2006	December 2008
Chile	March 2007	September 2007
Thailand	April 2007	November 2007
Brunei-Darussalam	June 2007	July 2008
Indonesia	August 2007	July 2008
ASEAN	April 2008	December 2008
Vietnam	December 2008	October 2009
Switzerland	February 2009	September 2009
India	February 2011	August 2011
Peru	May 2011	March 2012
Australia	July 2014	January 2015
Mongolia	February 2015	June 2016
CPTPP	March 2018	Not yet in force
EU	July 2017	February 2019

Source: Regional Trade Agreements Information System (RTA-IS)
[online] Available form: <http://rtais.wto.org/UI/PublicAllRTAList.aspx>

In the past 15 years, Japan has paid special attention to the development of integration relations in the region. Initially, they were negotiated bilaterally with individual ASEAN countries (with Singapore, Malaysia, Philippines, Thailand, Brunei, Indonesia, later Vietnam—all being members of the Asia-Pacific Economic Cooperation (APEC)) and then with the integration organization ASEAN. In a broader sense, the region includes Mongolia and Australia. Thus, 10 out of the 17 agreements concern the region, which also shows the importance of cooperation with countries in the region.

In recent years, ASEAN, in particular the Indochina region, the less developed countries have been the key areas for the regional expansion of Japanese capital. Beyond the geographical proximity, this is due to a growing lack of labor force in Japan and wage differences between countries. Therefore, they have started the deployment of labor-intensive production in low-wage countries (Vietnam, Laos, Cambodia and Myanmar). Japan is the second largest FDI source for ASEAN countries.

Trade in goods between ASEAN and Japan has stagnated in recent years, with ASEAN export surpluses. Japan has a 10 percent share in ASEAN's total merchandise trade, making it ASEAN's second largest partner (ASEAN Economic Integration Monitor).

There is a good complementarity between the bilateral and the multilateral agreements signed with the countries. Japan also has a free trade agreement with four OECD members. Mexico was the first OECD member to have an agreement with Japan in 2004 and then in 2007 it signed with Chile. Both agreements are concerned with trade in goods and services, but also contain chapters regulating capital movements. Both countries are located on the Pacific coast, and their other common feature is that both are members of the APEC cooperation.

Only in 2014 was the free trade agreement signed with Australia. The agreement deals with the free movement of capital alongside trade in goods and services. Trade in agricultural and fishery products is a priority in the agreement. (Australia is also APEC member state.)

Switzerland was the first European country to sign a free trade agreement in 2009, which covers goods and services, product origin rules, intellectual property rights and capital movements. An interesting fact is that Switzerland is one of the few European countries to have a trade surplus with Japan (due to exports of Swiss luxury products).

Japan also has free trade agreements with three developing countries: with India, Peru and Mongolia. The importance of the free trade agreement with India is that it has the world's second largest population, it is the world's third largest producer respective of purchasing power parity, and it has a large number of middle-class consumers, whose consumption creates a large market for Japanese products. The abundant, cheap workforce thus can help Japan solve its relevant problems. It is worth noting that India has no free trade agreement with China.

In Peru, the free trade agreement was born in 2011, aiming at the free movement of industrial products and the gradual reduction of customs duties (agreement between China-Peru, 2009). Questions on trade in services and free movement of capital are yet under negotiation. (Peru is also an APEC member state.)

In the case of Mongolia, the abundant raw material sources motivated the FTA (2015), and here they preceded China because they do not have a similar agreement with the country.

3.1. Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP)

The Comprehensive and Progressive Agreement for Pacific Partnership (CPTPP) was established under the former TPP agreement. The TPP was signed by 12 countries in 2016: the US was also a signatory, but in January 2017, President Trump quit the agreement. After their pull out, 11 states stayed. (In the literature, the cooperation was also referred to as TPP-11 before signing the new agreement).

Japan, following the withdrawal of the US (after a few months of hesitation), decided to continue negotiations. Therein, the RCEP (Regional Comprehensive Economic Partnership²) negotiation initiated by the Chinese—serving China’s aspirations for dominance, (a win-win game, meaning that all parties win, but China wins the most)—plays a notable role. Japan should not be left out of this partnership, but in TPP-11 it has clearly gained the leading position, taking it from the US.

The CPTPP can be briefly defined as the integration of 11 countries on the two shores of the Pacific Ocean (7 Australian, Oceanic, Asian and 4 American) into a large market based on commonly agreed rules that already take into account the phenomena of the digital era. The CPTPP-11 market has 510 million inhabitants. This is the first comprehensive and high-level integration agreement that has been negotiated with countries that are geographically distant, with significantly different levels of economic development (Japan with 38 000 GDP per capita, while Vietnam with only USD 2164), at the cost of compromises.

CPTPP member countries accounted for 13 percent of the gross world product in 2016, 15-15 percent of international trade (exports and imports), and they are a significantly smaller economy than the US-based TPP-12 (38 percent of world production).

The CPTPP, as a new generational free trade agreement, summarizes all the features of the previously mentioned FTAs, TRAs and EPAs. It is an industrial free trade agreement (i.e. member states eliminate tariffs and other barriers to trade—due to the countries’ different levels of development, they do it using different schedules, that is, developed countries eliminate them practically at the entry into the agreement, while the less developed ones do it with a few years delay, so this part is asymmetric),

² ASEAN+6 (10 ASEAN countries + China, Japan, South Korea, India, Australia, New Zealand). This cooperation is encouraged by China—as it has been left out from the CPTPP,—which could increase its economic and political role in the region.

and an agricultural preferential agreement, but trade is free in more product groups, including a substantial part of food products. The agreement includes the freedom to trade in services, as well as the free movement of capital (but not the free movement of labor). An independent chapter covers public procurement, government procurement, and competition regulation. The CPTPP pays special attention to the protection of intellectual property rights, food safety, and drug trade. They also discuss environmental regulation (in the context of international trade). As Kruppa (2017) has noted, this new generational agreement based on its content, could be a "gold standard" for free trade agreements, meaning that it may serve as a model for other cross-border international integrations. The Philippines, Indonesia, Thailand (ASEAN and APEC member countries), South Korea and Taiwan (APEC member states) also show interest towards the CPTPP-11.

From the point of view of Japan, it is clear that eight out of the ten countries already have a bilateral free trade agreement signed earlier (Australia, Mexico, Chile, Peru, Singapore, Malaysia, Vietnam, Brunei), such an agreement is negotiated with Canada, and only New Zealand has been left out from this circle. Since many have bilateral free trade agreements between themselves, CPTPP seems to be bringing bilateral agreements to a multilateral level.

We shall also briefly discuss the role of APEC. With reference to the subject matter of the study, it must be indicated that there are several operational bilateral and multilateral regional integrations within APEC (including NAFTA and its successor; AFTA, bilateral agreements within ASEAN, free trade agreement between Australia and New Zealand). Examining Japan in particular, it can be seen that Japan has free trade agreements with 11 countries (with 7 ASEAN members, Australia, Chile, Mexico and Peru) out of the 20 other APEC members, and are in similar negotiations with South Korea, China, and Canada. It has no such agreement with the US, Taiwan, Hong Kong, New Zealand, Russia and Papua New Guinea. CPTPP raising bilateral and multilateral agreements to mega-regional / plurilateral level also helps transform APEC into a free trade zone, but we have to note that Russia and Papua New Guinea are not included in the regional cooperation (they have no bilateral agreements).

3.2. Japan-European Union Free Trade Agreement

The free trade agreement concluded with the EU, is as important as the CPTPP agreement for Japan. (In the literature, they refer to it as JEFTA; Japan-European Union Free Trade Agreement or EJEPA; EU-Japan Economic Partnership). The free trade

negotiations lasting for four years were successfully completed by the summer of 2017, the parties signed the agreement, and after the ratification process, the agreement could enter into force in early Autumn 2019. Considering its content, logic, and structure, the CPTPP and JEFTA agreements contain many similarities, but differ significantly in one field. The CPTPP agreement is multilateral, while JEFTA is a bilateral agreement. (Despite the fact that several countries are involved in the latter, as a result of the EU's common commercial policy, the Community has been involved as a negotiator on the consultations.)

In Japan and in the EU-28 member states approximately 640 million people live, all potential consumers. Together, they account for 30 percent of world production, with a world trade share of 39 percent (EU internal traffic is not included in the data). For the EU, Japan is the sixth most important export and import market, while Japan is the EU's third most important partner. These facts highlight the significance and practical importance of the contract. The Community and Japan are also very much looking forward to the agreement.

Free trade covers industrial products and services and a significant part of agricultural and food products. The agreement covers environmental protection (in the spirit of the Paris agreement on climate protection), consumer protection, competition policy, public procurement and protection of intellectual property rights, but includes for example protection of geographical indications (e.g. Tokaj aszú). The European Union operates its website³ in focus of the topic and the text of the agreement can also be found here⁴.

In the continuation of the study, the history of relations between Japan and the Community will be outlined, the way to the free trade agreement will be presented, and then the agreement will be briefly introduced, its advantages, disadvantages, and the expectations of the member states, especially of Hungary.

³ The European Union website: [online] Available form: <http://ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/>

⁴ Text of the EU-Japan Economic Partnership Agreement: [online] Available form: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

4. The History of EU – Japan Relations⁵

The development of Japan and Western European relations has over 150 years of history. After the breaking of the Japanese isolation in 1853, the Emperor recognized the advantages of the modern Western economy (advanced production tools, weapons, means of transport; steam boats, trains) and put them to serve the benefit of Japan. The period of modernization began in 1868 (Meiji Restoration), at which time the most advanced power of the world was England. In the course of modernization initiated and controlled by the emperor, the warlords and landlords who were appointed acquired English technology and established modern industrial production with the help of their accumulated wealth. It was a very special way of transitioning from feudalism to capitalism, former feudal lords became tycoons, and future trading house leaders. However, rapid industrial development required raw materials and coal (energy carriers). There was little of these on the island. On that basis Japan started a policy of conquest motivated by a shortage of raw materials in the oceanic archipelago, and then conquered Taiwan and Korea under the weakening Chinese rule. The period up to the Second World War, in addition to rapid economic and technical development, resulted in foreign economic opening, and Japan became the real power of the region in economic and military terms. Germany's European aspirations (living space theory) also appeared in Japan in the 1930s. There was a need for raw materials, energy carriers and cheap labor. China, which was so weakened by then, became the target of conquest (1931 Manchuria, 1937 additional Chinese territories). However, Japan's Far East hegemony was threatened by the presence of the US in the region, this partly led to the attack on Pearl Harbor and the entry into World War II. In this tight hundred years, it was the British relationship being determinative in the decisive economic sphere and then the influence of the German Empire that was significant in political terms.

4.1. Japan and Western Europe in the Years after World War II

The defeat in World War II shook the country, the superiority consciousness was damaged fundamentally. The significant financial losses, the troubles caused by the Japanese returning from the colonies, the American humiliation of Japan (the emperor had to abandon the earthly divine title), which led to a specific civilization problem: is not Japan the chosen country? The losers were not involved in the formation

⁵ To reveal the history of the relations I used one of my previous studies (Majoros – Imre, 2006; and referenced writings of J. Gilson; R. Albrecht and C.M. Dent).

of the new world order after World War II—including Japan—, but after a while the Soviet Union and the Eastern European countries did not either participate in the establishment of the new international institutional system (IMF, IBRD, GATT, NATO). The world order thus formed was essentially serving the US's and Western Europe's interests—the so-called West—and represented the interests and values of Western-type civilization. After World War II, economic relations of Europe and Japan were characterized by a lack of mutual interest. In 1945, Japan ended up as a depleted and defeated country coming out of the world war. As in the countries of Western Europe, they also had to face the consequences of the long war on the islands of Japan, and the rebuilding of the ruined economy and society had to begin. To solve similar problems, the two regions had different solutions, but in both cases the role of the United States was crucial.

The Japanese and European policies of the United States were both influenced by the Cold War situation. Japan's economic recovery began with the Allies' occupation from 1945 to 1952, which again ensured American influence on Japanese politics over the coming decades⁶. Allied forces launched a demilitarization and democratization program to prevent the repetition of Japanese war actions, set up a new and democratic government and helped in the building of the economic and social infrastructure. Japan's importance truly grew after the victory of the Chinese Socialist Revolution (1949). The formation of the Soviet-Chinese People's Republic (Moscow-Beijing) axis led the United States to make Japan a strong ally. In addition to the significant two-way trade, the two countries were linked by economic aid and cooperation programs, and from 1951, under the US-Japan security treaty, defense for the island was also provided by the United States. In 1952, Japan regained its independence and, as a member of international organizations, wanted to become involved in the circulation of world trade and world politics. Efforts in that regard were also supported by the United States: in 1955, Japan could become a GATT contracting party thanks to US support, and it gained entry to the United Nations in 1956, and to the OECD in 1964.

The United States tried to prevent the economic collapse of European governments and the spread of communist regimes in Western Europe with the help of a USD 13 billion aid under the Marshall Plan disbursed from 1948 to 1951. At the same time, the Marshall Plan and OEEC (European Organization for Economic Co-operation) consisted of sixteen countries initiated for the distribution of the aid, was dedicated

⁶ The winning European allies did not participate in Japanese affairs, they treated them as they were beyond their own competence and they transferred the leadership of the Allied forces to the American troops.

to open the way for closer cooperation between Western European countries, thus both reducing the financial commitment of the United States to the reconstruction of Europe in the future, and the risk of a new outbreak of war. The cooperative efforts were also expressed in terms of defense, in addition to the economic ones. As a result of the party-state systems built in the countries occupied by the Soviet Union, the NATO Treaty, which incorporated Europe into the North Atlantic defense structure, was launched in 1949. By the beginning of the fifties, European politicians recognized that in the emerging bipolar world, Western Europe could only increase its political and economic influence through unification. Schuman's French Foreign Minister's proposal resulted in the signing of the European Coal and Steel Community Agreement in 1951 and further steps towards integration led to the signing of the Treaty of Rome on March 25, 1957, which established the European Economic Community (EEC). While the foundation of UN-like organizations—both to European and Asian winners and losers of the Second World War—provided new forms of dialogue, actually it gave little impetus to the development of any transcontinental dialogue. At this time, for historical reasons, both Japan and Western Europe built multi-faceted relationships with the United States. The lack of close historical threads, mutual interest and common security issues, the weakness of not knowing each other, and the emergence of stereotypes led to Japan and the European Community not becoming natural partners in the post-war years.

4.2. The Fifties: Trade Relations Serving US's Interests

During the fifties, the United States offered tariff preferences to European countries that—following American behavior—opened their markets to Japanese products. The United States supported the access of island state's products to the European market, because it resulted in the recovery of the Japanese economy, the rise in living standards, and thus the strengthening of Western democracy in Asia, which was essential for political and strategic stability. The United States also favored the country's GATT accession because it concealed additional export opportunities. However, the growing trade disputes between Japan and the United States and the negative experiences before World War II have made European states distrustful against low-wage Japanese products and commercial practices of the island. Because of the potential Japanese threat to the European textile industry, Britain, France, the Netherlands, and Germany (GDR) initially did not support Japan's GATT accession⁷. Even later, they

⁷ Japan first applied to the GATT in 1952, but it was only three years later that it could join due to the protest of the above states.

only agreed to the accession with the provision of Article 35, according to which they could suspend the application of the Convention at any time selectively in relation to Japan. In this mistrustful atmosphere, the United States to no avail tried to act as a mediator in European-Japanese relations. While Europeans were afraid of Japanese commodity dumping, the island was disturbed by the adverse effects of the introduction of a common external customs on trade with Europe and on every forum it fought for the abolition of restrictions on its export products and struggled to suspend the application of Article 35. Japanese concerns have been further aggravated by the measures taken by some of the European Member States. In Germany and Italy, for example, even after the GATT accession, import restrictions for several Japanese commodities were maintained, and in 1958, Belgium introduced another twenty-four restrictions on imports from Japan. Many subsequent diplomatic efforts have led to the lifting of restrictions.

Interestingly, during this period, issues of a political nature were mainly on the agenda in the matter of relations between Japan and Europe. This can be explained by the fact that the drafting of a common position was less problematic, for example in relation to Soviet actions and commercial disputes. The years immediately following the war are distinguished by this shift of political focus from the coming decades, when relations were dominated by trade issues. The political dialogue between Japan and Europe only started slowly reappearing from the 1980s.

4.3. The Sixties: Bilateral Trade Agreements between Member States and Japan

By the 1960s, Japanese exports increased, and the United States began to consider Japan as a potential economic rival. While it remained a key issue to the US to gain the widest possible access to the Japanese market, it no longer actively promoted the deepening of bilateral relations between Japan and Europe. Relations between the two sides have remained minimal as long as no demand arose to shape them independently from American political interests.

In 1965, after Japan had achieved several of its previous goals (e.g. OECD membership), a new turn in Japan's EC policy took place. The goal was less and less the elimination of discrimination, but the focus shifted to export promotion, and a few years later to boosting European capital investment. Meanwhile, in Japan, economic restructuring took place: light industry products were increasingly replaced by mechanical engineering products (ships, cars, news technology), and high-tech

products represented a high proportion. The development of the Japanese and Western European economies in the 1960s—being unbroken until the 1973 crisis,—provided a favorable background for economic relations. The volume of trade increased, although most EC Member States continued to issue import quotas for some of the Japanese products. There was a striking difference: while Japan supported emerging, developing, modern sectors, and the improvement of their export ability, the Community protected aging sectors, primarily to maintain jobs (e.g. steel industry, shipping industry). Economic discrepancies soon made meetings between Japanese and European MEPs unavoidable. These bilateral discussions became even more common during the decade, as Japan had increased its participation in the work of many international organizations and institutions where European states (e.g. UN, GATT) were represented, and also because of the possibility of the UK joining the EC, Japan began to attach greater importance to European relations. Rapprochement can be explained by the temporary deterioration of relations with the United States, as well as by the new Prime Minister, Ikeda, who was more open to Europe in terms of his foreign policy than his predecessors.⁸

Japan's rapid economic growth and significant imports in Europe also increased the need for a common position regarding the island state. However, progress was hampered by discussions about the role of the Commission.⁹ Thus, individual Member States started bilateral negotiations with the island state. On July 1, 1960, Germany was the first country in Europe to sign a trade agreement with Japan, in which it gave the most favorable treatment. The Benelux countries concluded a similar agreement in 1961 and waived the application of Article 35 in exchange for the proposed safety clause, but for twenty-eight items (e.g. textiles, porcelain products, cutlery), individual quotas were still maintained. The British gave up the privilege of Article 35 in 1963 after concluding a trade and shipping agreement with Japan which included two safety clauses. The French government maintained its stiff position for a long time: it only concluded an agreement with the island state in 1964, under the same conditions as the British. In the second half of the sixties, regular political meetings were held between Japan and some European Member States. In 1963, for the first time, Japan and the United Kingdom, Japan and France, along with Japan and Germany, held

⁸ In July 1962, Japan released its first "EEC policy". The Japanese government announced that it would not apply the preferential treatment of the liberalization program to countries that continue to discriminate against Japanese products.

⁹ At the beginning of the sixties, the Commission made a number of attempts to raise trade issues to a unified European level, but its efforts were not successful due to the resistance of some Member States (primarily France), which believed that if the Commission had a coordinating role in commercial matters, it would jeopardize the nation-state interests.

talks on regularizing foreign minister meetings. Two years later, similar negotiations began between Japan and Italy. By the time, all EC Member States had granted the most preferential treatment to the island state, and the Commission stated that all obstacles had been removed from the EC-Japan joint convention, which would contain a single safety clause and abolish all previous bilateral agreements. However, due to protests by the French and Italian government, this could not be realized, so bilateral agreements between the Member States and Japan remained in force.

On the other hand, the opportunity of trade negotiations at the European level was not clearly welcomed in Japan. They were afraid that the list of restrictions for the transitional period negotiated by the EC would be the same as the broadest list then in force, and that the provisions of the safety clause would have to be extended to Germany and Italy. Although direct business relations between Japan and Western Europe had become increasingly important, owing to the role of the island state in the world economy, more and more European politicians had felt the need for a unified position. During the sixties no significant progress was made on this issue. In the second half of the decade, the intensity of political relations declined, and negotiations on specific economic issues and problems took place in sectoral forums. The downward attention from the Japanese side was by reason of the miss of British EC accession and the bilateral trade agreements that entered into force, as well as the behavior of the Japanese socialist opposition, which increasingly criticized the Western orientation of the government. As a result of repeated failures, the Japanese issue was removed even from the Commission's agenda for a while. Still, this period cannot be considered inefficient: mutual diplomatic recognition had been achieved and structures had been built that later enabled the further development of relations.

4.4. The Seventies: Intensifying Trade Disputes and Slow Institutionalization

The EC Common Commercial Policy entered into force on January 1, 1970. The need for its introduction was explained by one of the main objectives of the EC, the creation of a customs union, the essence of which was that while trade between Member States eliminated customs duties, a common trade policy with third countries, including a single tariff system, was applied. Although from 1970 onwards, Member States could no longer conclude new bilateral trade agreements with third countries, some elements of the common commercial policy could not come into effect immediately due to previous agreements in force. There was a rule that allowed national measures

to be maintained until they prevented the development of a common commercial policy. However, many of these national measures were directed against Japan and hampered the EC's attempts to develop a unified system of trade rules for the island state.

In the 1970s, four factors influenced the development of EC-Japan relations:

- significant changes in world economic conditions (end of Bretton Woods system, drastic increase in oil prices, etc.);
- EC changes (customs union, enlargement, development of new Community policies, etc.), transformation of the community's global economic and political role;
- the significant Japanese trade balance surplus;
- institutional development in Japan-EC relations.

In the '60s, '70s, Japan strengthened industrially and economically as much as it appeared as an increasing competition in the market of the European Community with its products. Member States realized that their new competitor was also a potential trading partner, and a cautious contact between the two economic areas began. Initially, conflicts and hostilities emerged as a result of the flood-like influx of Japanese products, the EC applied anti-dumping duties and import quotas against Japanese imports.

While in the early 1960s there was still a trade balance between Japan and Western Europe, from 1969 the EC's lack of trade with the UK was perpetuated. The Community then realized beyond doubt the economic importance of Japan. In September 1970, trade negotiations with Japan began. The European Commission insisted on the safety clause for all Japanese products, but the Japanese government would have liked the trade with Western Europe to be in accordance with GATT rules and that Member States could only apply the system of safeguard duties in the event of a serious threat to domestic products.¹⁰ Despite ongoing disputes and negotiations, Japanese exports to Europe steadily increased due to the Japanese companies' sales offensive. The deepening trade gap was particularly significant in some specific sectors (radio and television sets, tape recorders, electronic equipment, ships, automotive products). Japan did make some self-limiting provisions, but with little results. EC Member States (UK, Denmark and Ireland too since 1973) were confronted with Japanese commercial practices in a more and more uniform way. For the rest of the decade,

¹⁰ Meanwhile, within the framework of GATT, negotiations on the dismantling of non-tariff barriers had already started between Japan and the United States and between the EC and the United States, and in February 1972 a related treaty was signed. The so-called codes of conduct emerged from these negotiations.

talks to restore growing imbalances and Japan's self-restraint measures continued¹¹, but tensions persisted until the early 1980s. The attention of the EC during this period was primarily directed at Japanese exports to Europe and not to European exports to Japan. By the seventies, the European Community as a negotiating partner had become a potential alternative for Japanese leaders against the United States.¹² The increased Japanese attention to the Community can partly be explained by the United Kingdom's eventual membership, but the development within the EC and the increasing number of channels of communication between the two parties had also contributed to this. The deepening of integration within the Community in these years was an important factor in the development of EC-Japan relations. By the early seventies, both Japan and the EC felt the need for institutionalization of bilateral relations, regular discussion of key issues at ministerial and expert level, and thereby the insurance of the development and continuity of relations. The first meetings were held in June 1973 in Brussels and initial bodies for institutionalized relations between the EC and Japan were established. In 1974, a diplomatic mission of the European Community was set up in Tokyo, and in 1975 a Japanese mission was established in Brussels. The task of the Tokyo delegation was to promote dialogue and build a closer relationship between Japan and the EC. The visits to the UK by the leaders of EC Member States, the biannual high-level talks between Japan and the EC and the meetings of the European and Japanese parliamentarians since 1977 provided a framework for deepening the dialogue.

In spite of the steps taken to develop bilateral relations—especially in the light of the Community's trade restrictions on Japan,—however, it was clear, that a number of steps still needed to be taken towards the partnership. It was also a matter of concern that in non-trade areas, the Japanese were not convinced of the legitimacy of the EC acting as a single entity, thus attempted to resolve the problems bilaterally.

¹¹ For example, in May 1976, the Japanese government made it possible for car manufacturers in the EC to carry out the necessary safety and pollution investigations in Europe concerning their exports to Japan.

¹² The so-called Nixon shock (suspension and then termination of the dollar's convertibility to gold; diplomatic recognition of the People's Republic of China, repatriation to the UN Security Council) made Japan's political leadership uncertain and made it necessary to establish new orientations and relationships.

4.5. The Eighties: Reinvigorating Political Relations

As a consequence of the second oil price explosion, the Japanese trade balance decreased, so Japan demanded that the Community abolish restrictions on its products. The EC did not respond positively to this, as the increase in the price of crude oil had also made the Community's balance of payments negative and Japan's problems were not attributable to them. As a result of intensified discussions, new export incentive measures were introduced in Japan, accompanied by EC protests. Japanese exports had been rising sharply, and the EC deficit was too: this brought about a new crisis situation.

At the time of the '80s crisis, the yen was appreciated significantly compared to the dollar (this was not the case for European currencies), and because of the fixed exchange rate, US products became more competitive on the Japanese market. This market loss affected the EC again negatively. Since the middle of the decade, the flow of Japanese capital began towards Europe, especially to Great Britain. Trade in services became increasingly important in this period; this was very positive for the EC as it had a stable surplus in services.

During the 1980s, the EC tried to settle its relations with Japan, an important part of which would have been to develop a common Japanese policy. Disputes between Member States did not make this possible, but a program was made to settle the relationship. This consisted of four points (Dent, 1999): uniform export restriction requirements; appreciation of the yen; abolishing non-tariff restrictions; and they asked to treat the EC at least as favorably as the US. In 1985, within the framework of the OECD, the so-called Plaza Accord was born, which abolished the yen/USD bound rate. As a result, the yen appreciated, which worsened the international competitive position of Japanese products and contributed to the reduction of significant Japanese export surpluses. In the evolved situation, the Community reduced its quantitative restrictions on Japan, and Japan also made serious efforts to open up its markets to European products.

In 1986, the Single European Act was adopted, aiming to create a single market. The unifying market of the 12 countries and the increased competence of the Commission once again raised the need to create a Japanese policy. However, this did not come through.

4.6. The Nineties: The Decade of the Triad

An important change in the early 1990s was the dissolution of the Soviet Union and the change of regime in Eastern European socialist countries. The end of the Cold War changed the world economic and political environment. Formerly isolated socialist countries became a field of globalization: international capital flows were accelerating, and the former socialist world was a new ground for multinational companies. In economic terms, the world was expanding horizontally. In the field of security policy and military policy, the former common enemy image, the dissolution of the Soviet Union, resulted in a new situation even in political terms. After the end of the bipolar world order, besides the US and the European Community, Japan, as the world's third leading economic power, and the world's largest creditor took its place in the trilateral world. The '90s was a remarkable decade of the Triad: the three great powers were cooperating, occasionally acting together. The cooperating countries, however, already considered each other as competitors in the economic and commercial sphere (not as an opponent or as an enemy). They wanted to slice a larger slice of the world economy, the cake of world trade, but they could only do that against each other. It made it difficult for them to compete, and China began to develop strongly, and then India after a few years.

Japan was then facing several challenges. China's economic growth and expansion was an important factor, despite the fact that Japan had persistent trade balance surpluses with the country. Secondly, as a result of the smaller and bigger Asian crisis in the 1990s, the economic growth rate initially stagnated, then temporarily turned negative from 1998 onwards. In the "flying wild goose" model, Japan was not in the lead, and it disrupted the Asian Tiger and the Tiger Cub Economies following its example. Corporate micro-integration links loosened and developing countries with Japan's support started to create their own development strategy and established a relationship system and became competitors (mainly South Korea, but also Taiwan and Singapore). The controversial issues of Japan's US relations must be mentioned in the third place. Japan accumulated significant trade surpluses against the US since the late 1970s, consistently bought US government securities, invested in the States and by this it triggered US displeasure, which in many ways tried to prevent Japan's expansion. After the end of the Cold War alongside economic tensions, political debates were pressing the seemingly peaceful US-Japan relations. Such a debate was on the issue of US military bases in Japan (when it was found that despite the agreement, nuclear weapons had been also stored on the bases), furthermore Japan's position against the spread of US and Western human rights principles in South East Asia. In this field, Japan returned to its civilization roots, disillusioned with the Western

economic-cultural model, and they derived their previous successes from their own culture (Huntington, 2002, p. 165). For these reasons, both Japan and the European Union were transforming their foreign policy and foreign trade strategies.

The year 1991 was important in Japan-EC relations: the first partnership agreement on their relations, its political, economic and commercial aspects, signed in Hague, was a significant improvement. This included the need for regular consultation of supreme leaders, the realization of political information exchange. The agreement showed that the two sides had been mutually committed to developing relationships.

By the summer of 1994, the EU prepared an important document entitled "Towards New Asia Strategy". This community response on the changing world economy, emphasized the intensification of Asian relations. The rise of the Asian countries and their advancement in the world market had forced the long-lasting adoption of this document. Besides Japan's slowing economy at the time, China's rapid development and the ASEAN countries' trade successes, all played a role in the design of the Asia strategy. Cooperation with the fastest growing region of the world economy was important for the Community. It had made it particularly important that the US also strengthened its Asian relations. Establishment of the Asia-Pacific Economic Cooperation (APEC) as a consultation forum (1989), networking with the members, and the inclusion of China in the APEC in 1991 forced the EU to make new measures. This resulted that the importance of the political dialogue between the EU and Asian countries had also been included in the adopted document. The result of this was the biennial "Asia-Europe Meeting", the ASEM. However, the two forums are different. APEC deals only with economic-trade issues (political, human rights, and socio-civilization issues are not on the agenda). In addition to economic matters, ASEM also deals with political and cultural issues, and the ASEM often even raises human rights issues (not greatly welcomed by the Asian partners).

In 1995, as an integral follow-up of the Asia Strategy, the Community drew up individual country strategies for its most important Asian partners. Japan was the first ('Europe and Japan: The Next Step'), then it was closely followed by the Chinese strategy ('Long term policy for China-Europe Relations'). It was no coincidence that the strategies were practically simultaneously created: the EU wanted to settle and develop their relations with both Asian giants.

In EU-Japan relations, the growth rate of Japanese commodity exports slowed down slightly, but imports from the EU were even more, so Japan retained and even slightly increased its trade balance surplus. The EU trade surplus in services improved the

balance, but the Japanese surplus remained. Japan's capital exports also accelerated to EU countries, but primarily targeted the UK, the Netherlands, because France and Germany were somewhat aloof from Japanese capital.

After the initial difficulties, the existing relations between the EU and Japan became more and more favorable, the volume of trade expanded and the framework of cooperation widened. In addition to economic relations, forums for political dialogue and consultation also developed in the form of regular high-level meetings.

4.7. Relations after the Millennium: The Way to the Free Trade Agreement

The EU-Japan Action Plan for Co-operation, adopted in 2001, was an important step in bilateral relations, which other than economic and trade goals, was addressing political aspects, including peace and security issues, cultural and human rights issues, as well as global changes. The same values, common economic interests, and similar political views eventualized in the strategic partnership. However, this Action Plan also received serious criticism, Berkofsky (2012) claimed it to be too ambitious, criticized its too many objectives (more than 100 bilateral cooperation plans), there were no priority tasks, and he assessed that no concrete implementation plans, and tools were assigned to its realization.

The world was also changing over the course of time: the increase in the number of terrorist acts affected trade and capital movements. The European Union gained attention by integrating new members into the integration system. The Community was also developing its bilateral, free trade relations with a number of non-European countries (e.g. Mexico, Israel, Chile) and with South Korea from the Far East. At that time, Japan started to build its integration network.

After 2001, trade disputes were not common in economic relations because Japan had started to implement structural reforms and the EU had also benefited from the gradual lifting of restrictive regulations. Japan recognized that there was no chance of recovering from the crisis until liberalization and deregulation reforms were completed, and the long-awaited free market competition did not come to fruition, because only this could result in dynamic economic growth associated with transformation. As a result of the global crisis of 2007-2008, trade volumes were slightly decreased, but the Japanese surplus remained. Considering Japan, South Korea became a competitor in its region, and Indonesia and Malaysia also strengthened their positions.

At the 2011 summit, an agreement was signed on a new cooperation agreement, but political, security and global issues were separated, as well as economic, commercial and investment issues. The possibility of a free trade agreement between the two parties, the start of negotiations, was raised in the latter. (It is worth noting that this happened during the Hungarian EU Presidency.)

The question arises: why then? The answer is relatively simple. More and more free trade agreements are being made in the world, and the countries of the triad also entered into such agreements, what is more, negotiations were about to begin between them too. It was an additional motivation for Japan that the EU signed a free trade agreement with South Korea in spring 2011. However, spring 2011 was tragic for Japan: earthquake, tsunami, nuclear power plant disaster. The course of these events resulted in the idea of negotiating.

In November 2012, the EU Commission opened the negotiations. The first round of negotiations was in April 2013. This was followed by a further 18 rounds of negotiations (with a significant number of expert meetings in the meantime). Negotiations were closed on July 6, 2017, and the edited agreement was finalized in December 2017. This was followed by the official path of the agreement. The European Parliament negotiated and ratifying the European Parliament on July 6, 2018, and on July 17, 2018 in Tokyo, the EU signed the agreement, which shall enter into force after the ratification process.

During the negotiation period, presumably due to the delays, the EU trade deficit declined significantly in Japan.

5. The EU Japan Economic Partnership Agreement¹³ (EJEP or EUJEP)

After four years of negotiation, the discussions were concluded by consensus. The name of the agreement already shows that it is not a simple free trade agreement. The name of the Economic Partnership Agreement indicates that the strategic partnership goes beyond economic-trade issues. It is noteworthy that there was very little opposition to the agreement: no trade unions and no antiglobalist protests either (not like in the case of the TTIP and CETA¹⁴). One of the reasons for this was that the

¹³ EJEP or EUJEP are used in the literature to abbreviate the EU-Japan Economic Partnership Agreement.

¹⁴ EU-Canada Comprehensive Economic and Trade Agreement

agreement very narrowly covered the issue of regulating international investment, such as investment protection matters and investment dispute settlement cases. (This is under further discussions and negotiations.) There were no protests in Japan because the whaling and whaling trade issue critical for the Japanese party—being a sensitive area—was left out of the agreement (the EU is committed to the environment in the field of whales, while Japan stepped out of the international whaling agreement in 2018 and further increased their catches).

The significance of the agreement is that after the failure of the TTIP and TPP-12 negotiations, the EJEPA stands against protectionism and abuse of economic dominance. Both sides are committed to the liberalization of international trade and support the WTO's multilateral trade liberalization efforts. After the agreement enters into force, such positive repercussion, which might result in the renewal of the TTIP negotiations, or even the return of the United States to the (CP) TPP agreement, is not impossible.

5.1. Briefly about the Details of the Agreement

The parties agreed on the almost complete liberalization of trade in goods. This means that the tariffs of 86 percent of EU exports to Japan will be abolished (officially at 0 percent duty¹⁵) after the agreement enters into force, and then over 15 years gradual liberalization will happen, the 97 percent of products become free of tariffs. 96 percent of Japanese exports to the EU will be duty-free immediately and will gradually reach the 99 percent liberalization level after a few years. In some industrial sectors, customs will be immediately abolished (chemical, cosmetics, textile and clothing industries), while in the automotive industry (cars and spare parts) it will take 7 years.

The issue of agricultural and food products is much more complex. Both the EU and Japan are strongly protecting their agricultural and food sectors with high tariffs. Particularly in Japan, there is a very high duty in this sector. On the other hand, both parties subsidize their own agricultural sector, so state support has a strong influence on competition. (State aid issues are not included in the agreement, which is the subject of GATT / WTO agreements.) The most important sections of the technical

¹⁵ This does not mean that there are no tariffs. There are tariffs, but its 0 percent. This may be important if one of the parties had to suspend the most-favored-nation treatment for some reason. If there is no duty, there is nothing to suspend, but in case of 0 percent it is possible to reintroduce duty for a transitional period (up to 2 years).

negotiations were exactly in this area. The EU has given benefits (concessions) to the Japanese side in other areas (e.g. the automotive industry) in order to enter the Japanese agricultural market. An important result is that the tariffs on alcoholic beverages will cease at the time of entry when the agreement comes into force, while the rate of duty will gradually disappear in 10 years for pork, 15 years for beef and cheese, and 10 years for pastries and sweets and chocolates (details in the agreement). Japan has urged for market entry of its sea fish—successfully.

The agreement concentrates particularly on trade in services: in both the EU and Japan GDP the weight in services exceeds 70 percent, and it also accounts for a significant share of their trade. For us, it is important that the EU has a trade surplus in this area. In the field of postal, telecommunications and financial and insurance services, they allow market access for the other party's service provider in their territory (this is a significant step forward compared to the GATS¹⁶ agreement), providing the most-favored-nation treatment (MFN). At the EU's request, the agreement excluded audio-visual services and aviation-related services.

In addition to the significant liberalization of trade in goods and services, the agreement deals with non-tariff barriers to trade. Such so-called administrative protectionist measures and technical barriers were primarily used by the Japanese side. Health and animal health rules, food safety regulations, a proliferation of technical standards protect the Japanese market. Also, a substantial liberalization takes place in this area, significantly reducing standards and accepting each other's quality certificates. Beyond agricultural and food products, it also covers other industrial areas (e.g. the harmonization of car standards, the acceptance of the measurements by the mainland's emission indicators).

Public procurement is one of the most sensitive areas of international trade. The relevant GATT rules were already adopted in 1979, but a significant number of contracting parties only incorporated it into their own legal system when WTO was established (1995). The regulations of Europe are in line with international rules, but the facts show that, despite regulation, foreigners (non-EU members) are rarely successful in tenders. The Japanese regulations are much stricter. The agreement includes liberalization measures, for example non-discriminatory treatment in the public procurement market (in 48 small Japanese regions), but we cannot expect a substantial shift in this area.

The parties affirmed the enforcement of Trade Related Aspects of Intellectual Property Rights of WTO rules in their bilateral relations.

In competition cases, they reinforced the requirements of fair and free competition in their bilateral relations. The protection and support of SMEs and corporate governance issues, including shareholder protection is an independent chapter in the agreement.

The questions of investments and capital movements are barely covered in the agreement. Here, they also highlight the need for the most-favored treatment and national treatment, and they support the promotion of bilateral investment. But this is the area where perhaps the least amount of movement has occurred. The entry to the Japanese market is very difficult due to intercultural reasons and national traditions. In other words, it is not so much the regulatory environment, but the economic and social environment that makes greater appearance of EU capital in Japan difficult. The EU initiates that a regulation similar to the Free Trade Agreements signed with CETA and recently with South Korea and Singapore should be set up addressing investment protection and investment disputes.

In the agreement, a separate chapter deals with the issues of sustainable development, environmental protection and climate change. They reaffirm their commitment regarding the Paris Climate Agreement, as well as address other social issues (such as ocean protection, biodiversity conservation, sustainable forest management etc.) in the agreement.

The relationship between the two leading economic areas is likely to continue to develop in the future, and it will become even more intense, being that both parties have an interest in cooperation and maximizing the resulting benefits in the context of global competition.

5.2. Expected Impact of the Agreement on the Community¹⁷

The examination of the expected mechanism of action is based on the almost complete elimination of tariffs, and on the substantial reduction of non-tariff restrictions. Among the economic effects, the growth of real GDP should be highlighted. Various

¹⁷ The figures in this chapter are derived from an independent study prepared for the European Parliament in September 2018 (The EU-Japan Economic Partnership Agreement).

analysts predict GDP growth of around 0.1 percent per year for the next 10 years. The expected growth is the result of various model calculations (DG Trade and Felbmayr at.al., 2017), which take previous trade trends as the basis and tries to project the effects of the EU-South Korea FTA on the EU-Japan Agreement. The basis of growth is the expansion of bilateral trade, which is a consequence of the diminishing costs of trade (elimination of customs duties, lower or cessation of other obstacles). Trade flows with South Korea increased by nearly 50 percent between 2012-2018. This expansion is unlikely to occur in relation to Japan, but expert analysts expect a 23-33 percent EU export expansion and a 17-23 percent import growth in the coming years. In addition to the growth in export of agriculture and food industry, the expectations of the chemical industry, the pharmaceutical industry, the cosmetics industry and the fashion sector are important for the EU. Japan can achieve success especially in the automotive industry, but also in other engineering and robot industries. The employment effects of growth will be very modest, and the same applies to real wages (the price decrease of Japanese products may result in small-scale real wage growth, but selectively). Deepening economic-trade relations can also lead to other synergistic effects.

Such an area could be that of investments (where negotiations are still in progress). With reference to Japanese-EU relations, an interesting difference can be observed with respect to economic philosophy. Japan is a major capital exporter and strives to build a relationship by placing production in the target country. There are special reasons for this coming from the Japanese civilization. Japan is an island, the natural border is the sea, and in history it evolved that the outlander (foreigner) was not a welcome guest. This applies to foreign products (the system of establishing trading houses and the principle derived from Confucius ethics i.e. buy Japanese products, thus you protect domestic workplaces) and to FDIs. In Japan, the weight of FDI is relatively low, and the experience of foreign companies is not clearly favorable either (e.g. French and Japanese automotive cooperation). EJEPA can make the EU market even more attractive to Japanese capital exporters, which means that Japanese capital exports are expected to grow. European investment in Japan is also expected to increase, but community businesses need to be prepared for the difficulties caused by Japanese civilization, socio-economic and socio-cultural differences and business culture (Hilpert, 2018). New entrants have to adapt to the extremely high consumer demands of the Japanese market. Market success can be achieved by product innovation or with a product performing well in terms of value for money (but the cost of adapting to Japanese consumer needs will certainly entail additional costs). Market entry costs are high, so are other costs (e.g. real estate prices, rentals, very high tax rates), which can reduce the profitability of both product sales and investments.

European producers should therefore be prepared to face up to such informal market barriers that EJEPA implies. The liberalization process in Japan, the structural reforms, and the integration agreements that might lead to an improvement in the Japanese business environment may give reason for optimism.

Positive benefits for the parties could be increased competitiveness. In addition to economies of scale, reciprocal investments, the exchange of high-quality components in trade, the enhancement of SME co-operation, the debut of the fruition of Japanese supplier systems in Europe, the strengthening of digital co-operation important for the fourth industrial revolution, and the spread of robotization can be beneficial for both parties.

We must also touch on the effects of BREXIT. The United Kingdom is Japan's second most important trading partner among the EU Member States (after Germany), but most Japanese FDIs out of the countries of the Community have been directed to the UK. Economic and technical relations between Japan and the UK from the last third of the 21st century to the Second World War are part of the historical heritage. In the less successful Japan-EC relations of the '60s, the failed integration efforts of the British also played a role, then in the '70s, after the accession, the Community's relations with Japan improved. Japanese capital, in addition to the machinery industry and the automotive industry, also appeared in the service sector and is particularly strong in the financial sector. The exit of the British from the EU will have a significant impact on the effectiveness of the EJEPA agreement for the Japanese side, as it will reduce the size of the EU market for Japanese exporters and the benefits of the Single Market for Japanese investors in the UK (free movement of goods, the freedom from financial services) will cease. We do not know what BREXIT will be (if any), but the conditions of the secession will significantly affect Japanese interests. The so called hard-Brexit would be the worst for Japan. In this case, the EU-Japan agreement does not apply to the UK, so Japanese production capacities in the United Kingdom may place their products in the Community (EU-27) market under WTO regulations with customs duties, causing them significant competitive disadvantages. Any other contractual agreement is better than that.

Presently (January 2019), it seems that a part of Japan's capital, especially financial companies, are considering placing their capital on the continent. Whatever the outcome shall be, if the UK leaves the EU, it will cause economic disadvantage for Japan. In this case, the Japanese-British relationship needs to be renegotiated, it is not excluded from having a bilateral free trade agreement between the parties, but this can only yield results in the medium-long term, which will be significantly less

than the current situation, in other words, Japan's interest is to have the UK stay within the EU.

Concerning the EJEPA, while commercial-economic impacts are quantifiable, socio-political impacts are less so. The parties have highlighted sustainable development on several sides. Besides environmental sustainability, they have particularly addressed human rights, including workers' rights, women's rights, gender equality and data protection issues. (The withholding of Japan from the whaling convention was challenged by European environmentalists.) They have reinforced their political cooperation intentions, their shared responsibility for peace in the world, and the maintenance of the institutional system of former political relations.

It is difficult to measure the expected effects on the balance sheet. According to expert analysts, the economic benefits will be significant for both parties (in the case of Japan, this is influenced by the BREXIT). It is difficult to create a scale of advantages and disadvantages. Both sides will experience a growth effect. For EU Member States, EJEPA has a trade creation effect. In sectoral breakdown, agriculture, food and tobacco industry, pharmaceutical and cosmetics industries in the EU, and from the Japanese side the automotive industry, the IT sector, financial services and robotics will be the main beneficiaries. It is estimated that there will be no losing sectors, but countries that are heavily involved in the automotive sector might make minor losses (e.g. Germany and Hungary). However, the agreement will have a negative impact on some of the trading partners of the parties, which is the so-called trade diversion effect that may affect China, South Korea, Taiwan, and Singapore.

The Hungarian economy looks to the agreement with a positive expectation. It hopes that Hungarian agricultural and food industry exports can be increased, as well as counting on Japanese capital export growth. Domestic car industry may be somewhat threatened by Japanese export growth, but I am inclined to believe that it will have little effect. Suzuki has imported the most important spare parts of cars manufactured in Hungary so far, thus no significant import growth is expected. In the case of other automotive companies, market competition is intensifying, with little negative domestic impact.

EJEPA establishes the largest free trade area in the world (around 30 percent of world production, 39 percent of world trade), and this is the first free trade agreement between the world economy's high-income players. The new types of agreements of CPTPP and EJEPA can be guides for other players in world trade: action against protectionism in pursuance of more free international trade. Agreements can serve

as a model for other free trade partnership agreements, but also for developing a new set of rules for world trade, namely the reform of WTO rules. The geopolitical importance of the agreement is enhanced by the fact that it was concluded between the eastern (Japan) and western (European Union) edges of the Eurasia continent. This will increase Japan's presence in Europe, while increasing the presence of the Community in South East Asia and the Pacific. The latter is the fastest growing region in today's world, this is why its presence is essential.

6. Rather than Ending – What is the Next for Japan?

Following the turn of the millennium, Japan has also been intensively involved in integration initiatives. In the environment of the globalized new world economy, geographic distance is relative, and the practically instant access to information changes the importance of time. Therefore, new types of agreements (CPTPP and EJEPa) already go beyond traditional economic-trade issues (not just industrial free trade), and investment protection, tax, logistics, intellectual property protection segments are also included in the agreements. Moreover, environmental protection, environmental disasters, the fight against terrorism, and joint actions appear in them. Thus, at this stage of development of integration, economic community is a necessary but not sufficient condition for integration. Integration is increasingly playing a role as a community of values. The combination of economic interests and civilization values characterizes the latest agreements.

The positive global economic environment is of great importance considering the economic strategy of export-orientated Japan, which accepted the Japanese opening to the world economy despite the fact that it is not quite mutual. However, in the last two decades, the multilateral rules on international trade (WTO) have remained unchanged, and the expansion of bilateral free trade agreements has worsened Japan's chances in the world market. The 1997-1998 Asian financial crisis posed a common challenge for the countries of the region to maintain their earlier rapid economic growth. First the establishment of AFTA, then China's integration efforts forced other countries in the region, including Japan, to join this process (fear of being left out) (Kawai – Wignaraja, 2011).

Free trade agreements are also tools for competition between China and Japan. The initiators and leaders of the integration processes in the region are partners and competitors at the same time. Japan is the leading economic power of the CPTPP agreement, which is a comprehensive, high level of co-operation in almost all areas of

the economy, like the RCEP project initiated by China representing its interests (Japan plans to participate in this too).

The two Asian giants are testing each other. Japan is the largest economic power in the CPTPP, but it cannot regain its former leadership in Asia, while globally, China's expansion seems unstoppable. The decisive question for China is whether it wants to remain a global economic power or become a regional power? Participation in the integration process, the EJEPA agreement, is of utmost importance for Japan to maintain its position. (China also raised the possibility of an EU–China agreement in 2014, but the proposal did not receive support in Europe.)

China or Japan, vs. China and Japan? Confrontation, competition, or collaboration. If they choose confrontation, it may lead to protectionism, and in the long run, to the slippage of the region, and may also result in greater problems. Japan cannot come out of it well. Hence, there remains collaboration based on the common cultural, civilization roots, the true partnership, the strengthening of regional cooperation. The economic capabilities and opportunities of the two countries complement each other: Japan is at the forefront of scientific and technical development, while labor force is abundantly available in China, and the supply of raw materials is also favorable. The large and growing Chinese market is important for Japan (both in terms of production assets and the consumption of the Chinese middle class). The synergistic effects of complementary type features are invaluable in commercial and investment areas.

Although Asian civilizations have many different characteristics, they have common cultural and civilization roots, in which Confucianism proclaiming the primacy of group interests (e.g. family, company) over individual interests, is of paramount importance. In East Asia, democracy and human rights mean something different than in Western cultures. While retaining its roots in domestic civilization, Japan must return to common Asian roots. In the long run, this may be the basis for the success of efficient cooperation, which will certainly be difficult owing to their rivalry and recent historical debates.

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