

## *Brexit, a Catalyst for Closer EU-Japan Relations?*

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The decision of the UK to leave the European Union (EU) following the Brexit referendum of June 2016 came as a big surprise for Japan. Since the end of the Cold War, the East Asian nation had looked at the UK as its “gateway to Europe,” both from an economic and political perspective. Faced with the prospect of losing access to the Single European Market, and a weakened EU and UK because of Brexit, Japan has accelerated its engagement with Europe. Together with the election of Donald Trump in the U.S., the Brexit vote served as a catalyst for a more proactive Japanese involvement in international trade and foreign policy matters. As a result, the country was able to conclude two landmark agreements with the EU – the Economic Partnership Agreement (EPA) and the Strategic Partnership (SPA) – and began a parallel set of discussions with the UK.

This paper looks at the ways in which Brexit may affect Japan’s interests, and assesses how closer EU-Japan relations (in the form of the EPA and SPA) can help to advance them. The structure of the paper consists of three parts. First, it looks at why Brexit is important for Japan, and briefly outlines its potential economic, political and defense impact. Second, the paper focuses on the specific forms of economic and political engagements between Japan and the EU following the Brexit referendum. Finally, it concludes with some observations about the opportunities and limitations posed by Japan’s renewed interest in European affairs, and possible consequences for the U.S.

The findings are based on dozens of interviews with Japanese, European, and U.S. diplomats, academics, business representatives, and journalists conducted in Tokyo during May 2017-March 2018, as part of a Council on Foreign Relations (CFR)-Hitachi fellowship at the Japan Institute of International Affairs (JIJA) in Tokyo. These discussions revealed that Japan’s commitment to closer EU-Japan relations is consistent and supported by the highest level of government, but that it comes from a sense of both opportunity and risk of the impact of Brexit on the EU. In this sense, policy-makers and businesses welcome the possibilities for closer EU-Japan cooperation brought by the EPA and the SPA, but they also see these instruments as a way to help support the integrity of the EU, a political project which has faced many crises in recent years. If the current level of political will for closer ties between Japan and Europe remains constant in the next few years, these developments promise to have lasting economic and political consequences for the actors directly involved, the U.S., and the rest of the world.

## *I. Why Brexit matters for Japan*

“Everybody was surprised by the results of the Brexit referendum, but the Japanese were absolutely shocked,” one senior diplomat in Tokyo told the author more than a year and a half after the 2016 Brexit referendum. The two recurring sets of questions in almost all the interviews carried out during the above-mentioned fellowship focused on the U.S. Trump administration on the one hand, and the probability of the UK reversing its decision on Brexit to stay in the EU, on the other. The latter question in particular is a sign of the difficulty on the Japanese side to understand and accept the UK decision.

The main reason Brexit is so important to Japan is because of the disproportionate importance of the UK in most aspects of Japan’s engagement with Europe, be it economic, political, or in security and defense matters. Consequently, as detailed below, Brexit stands to affect all of these facets of Japanese cooperation with Europe – and have forced the country to reconsider its approach towards both the EU and the UK.

### *I.1. Brexit’s economic impact on Japan*

Japan considers the UK its “gateway to Europe,” particularly in economic matters. By concentrating its investments in the UK, Japan gained access to the European Single Market of more than 500million relatively rich consumers. Depending on the outcome of Brexit, Japan stands to lose its currently unrestricted access for its companies currently located in the UK. Today more than 1,000 Japanese companies operate in the UK, hiring directly approximately 140,000 people, and indirectly creating at least 500,000 jobs. The UK is also the second destination for Japanese direct investments, after the U.S.

There are several reasons Japan has decided to concentrate its European investments in the UK. They include a business friendly environment, the use of the English language, historical and cultural ties, London’s cosmopolitan lifestyle, but also - as the Japanese government was keen to stress in a 15-page letter the Japanese Ministry of Foreign Affairs (MOFA) released just three months after the referendum<sup>ii</sup> – the fact that, since the 1980s, the British government has pro-actively courted Japanese investments. Consequently, there is an implicit understanding from the Japanese side that the UK government “owes” special attention to Japanese interests, and should keep those interests in mind when negotiating Brexit. The former UK Ambassador to Japan, David Warren, indicated that some of his Japanese counterparts share a sense of “betrayal,” and feel that the UK does not share the same understanding of the situation.<sup>iii</sup>

In particular, Brexit is most likely to impact the following specific economic sectors of the Japanese business presence in Europe:

- *The automotive industry*, which currently functions based on the “just-in-time” operating system of frequent border-free crossings of auto parts and limited warehouse storage. Among the first to respond the UK government’s invitation to invest in the 1980s, three Japanese car manufacturers (Honda, Nissan and Toyota) now make almost half of the 1.67 million cars produced in the UK. The majority of those vehicles are then sent for export to the rest of the European market. For an industry based on a high volume/low profit business model, the main concerns are the reintroduction of border-controls as well as tariffs and non-tariffs barriers post-Brexit. Speaking before the Paris Chamber of Commerce on February 26, 2018, Yoichi Suzuki, Japan’s chief negotiator for the EU-Japan free trade agreement, said that standard divergence between the UK and EU would make it more difficult to export Japanese cars assembled in the UK.<sup>iv</sup> Britain’s biggest carmakers, including Jaguar Land Rover, warned UK Prime Minister Theresa May that the additional costs incurred because of Brexit would hurt the profitability of the industry, saying that any regulatory divergence between the UK and the EU would be a “fallback to the Middle Ages.”<sup>v</sup>

The UK has tried its best to offer assurances to the Japanese car manufacturers – which at least for the moment seem very reluctant to move from the UK. The British government privately made guarantees to these car companies – including during Prime Minister Theresa May’s visit to Tokyo in the summer of 2017, and during her meeting with Japanese business representatives in London less than six months later. Toyota Motor Europe’s London representative, Tony Walker, said that his company felt “very comfortable that the [UK] government is listening and understands [its] concerns,”<sup>vi</sup> but the minister for public diplomacy and media at the Embassy of Japan in London stressed that Japanese companies remain “concerned by the prospect of Brexit.”<sup>vii</sup> The car industry welcomed news of a mutually agreed 21-month transition period after March 2019 during which current rules will continue to apply. Consequently, in February 2018 Toyota announced its plans to keep its Burnaston factory near Derby as the sole European producer of its Auris hatchback, a decision which safeguards approximately 3,000 jobs. Since approximately 85% of Toyota’s British output is exported, the company’s regional president, Johan van Zyl, said “continued free and frictionless trade between the U.K. and Europe will be vital for future success.”<sup>viii</sup> Honda has similarly indicated that it remains committed to maintaining its only European factory in the UK, and is considering building larger warehouses there.<sup>ix</sup>

- *The pharmaceutical industry* has been comparatively less vocal than the big Japanese car manufacturing companies, but no less worried about the potential negative consequences of Brexit. Its concerns relate to restrictive tariffs, delays at ports, divergent rules, the relocation of the European Medicines Agency

(EMA) from London to Amsterdam, and whether there will be post-Brexit recognition of testing and regulatory alignment. Depending on the post-Brexit relationship between the UK and the EU, the industry could incur additional expenses tied to retesting medicines, transferring marketing authorizations, changing manufacturing licenses, but also the departure of skilled workers, and a blow to the UK's reputation as an attractive place to carry out research. Other international pharmaceutical companies have been more vocal about their worries than their Japanese counterparts. GlaxoSmithKline Plc estimates that, in the next two-three years, it could incur costs as high as 70 million pounds (\$98 million) of Brexit-related costs.<sup>x</sup> Similarly, Johnson & Johnson estimated that it could face as many as 50,000 additional tests in the amount of 1 million pounds if there will be no post-Brexit mutual recognition of testing between the EU and the UK.<sup>xi</sup> AstroZeneca and MerckGAA raised similar concerns.

- *The financial sector* where, given London's preeminent role as the financial capital of Europe, the City serves as the current European headquarter of all the major Japanese financial companies. Immediately after the Brexit referendum it was unclear whether the UK would be able to preserve the so-called "passporting rights" that allow it to provide financial services across the EU. Since it takes approximately eighteen months to obtain a license to operate in other European countries, Japanese financial institutions based in London followed the example set by their U.S. counterparts and announced their decision to preemptively relocate part of their staff to continental Europe. Mitsubishi Bank UFJ picked Amsterdam as its base for EU securities operations, while Nomura Holdings, Daiwa Securities and Sumitomo Matsui Financial Group said they would move to Frankfurt.

It was only in early 2018 that it became clear the UK would lose passporting rights. Prime Minister May acknowledged this fact in her Manor House speech<sup>xii</sup> on March 2, 2018, and the EU's published negotiations for the post-Brexit arrangement with the UK<sup>xiii</sup> indicate a similar understanding. The financial sector is one of crucial economic importance for the UK, and London would like the greatest possible access to the EU financial market post-Brexit. However, as the EU is keen to note, the UK red lines in the negotiations limit the two sides to a post-Brexit free trade agreement – a format that is not conducive to deep cooperation in the field. The EU proposed instead a system of "improved equivalence"<sup>xiv</sup> that will grant UK banks access to the single market as long as the EU considers British rules to be equivalent to the bloc's. Compared to the current situation, this would be an unstable arrangement given the fact that the EU can rescind it at short notice. While many Japanese banking representatives don't anticipate London to lose its important role as a financial global capital, they privately acknowledge that the

relocation of the European Banking Agency (EBA) from London to Paris and potential regulatory divergence it would cause, as well as the potential negative economic impact of Brexit on the British economy could negatively affect their business in the future.

The economic sectors listed above are some of the most likely to be impacted by Brexit, but all Japanese businesses operating in Europe share general economic concerns about the potential negative impact of Brexit on the British economy in particular. As *The Economist* noted, exports are a large source of growth for Japan, so the country “fears the world is losing its taste for trade.”<sup>xv</sup> In its “2017 Survey on Business Conditions of Japanese-Affiliated Companies in Europe” of the Japan External Trade Organization (JETRO), Japanese companies across Europe listed “UK economic slowdown” as their top concern regarding Brexit.<sup>xvi</sup> Japanese companies operating in the UK are also worried about access to both skilled and unskilled workers, given the stated goal of the current UK government to limit migration. Consequently, Japanese companies continue to follow Brexit negotiations and the reaction of various industries and third parties like the U.S. very closely. Decisions such as that of Unilever – the UK’s third largest company to consolidate its HQ in the Netherlands and abandon the separate London HQ is just one recent example that has caused more unease among third parties about the outcome of Brexit.<sup>xvii</sup>

While most Japanese companies have been reluctant to expand their presence in the UK, and have been cautious about waiting to relocate their business on continental Europe, some companies have made a conscious decision to stay, and a few have even expanded their investments in the country. This is the case especially for companies operating in the field of technology, fintech, internet of things (IOT), and most companies that have a system of operations less dependent on cross border trade.<sup>xviii</sup>

## *1.2. Brexit’s political and security impact on Japan*

While it is true that Tokyo generally sees Brexit as a phenomenon that will impact primarily its economic interests, they are also concerned about the political and defense implications of Brexit. The UK is one of the most important European partners for Japan, given the country’s global political clout, military importance, and international standing. There is currently very good cooperation between Japan and the UK in this field, as illustrated by the fact that the UK is one of the few countries with which Japan has 2+2 regular consultations.

Japan’s first modern National Security Strategy (NSS)<sup>xix</sup> speaks about the country’s proactive contribution to peace, based on international cooperation. Consequently, Japan

is worried that both the EU and the UK will become more inward-looking, and potentially consumed by the negative forces of populism. Given a wide variety of threats and concerns coming from North Korea and China, but also cybersecurity, space, disinformation campaigns, etc., Japan wants consolidate its cooperation with third actors in Europe and elsewhere that share its values, and its commitment to liberal international order.<sup>xx</sup>

By and large, Japan is not concerned that Brexit will have a negative impact on its cooperation with Europe when addressing the North Korean threat. The East Asian nation welcomes EU statements condemning North Korea's nuclear tests, and its support and implementation of UN sanctions. China is a different matter. Japan is worried that the rise of China may not evolve in full respect of international law. The country's actions in the South and East China Seas have made Japan increasingly uneasy. Japan would like Europe to take a more active stance on these issues, even if only in the form of (strong) public statements. The EU follows an approach of "principled neutrality" when it comes to territorial disputes in Asia, limiting its contribution to general calls for the respect of international law. However, the EU's mild statement in response to the 2016 International Court of Justice (ICJ) ruling on the South China Sea -- where China was able to make use of its political influence over certain EU member states to weaken the final statement<sup>xxi</sup> -- raised alarm bells in Tokyo. Some officials and analysts in Japan view China's Belt and Road Initiative (BRI) as an attempt to enhance its economic and political influence over Europe, and to divide the EU. The expected negative economic consequences of Brexit on both the EU and the UK could make both actors more willing to accept Chinese investments despite the political ties they may come with.

### *1.3. Official Japanese reaction to the Brexit decision*

The previous section listed some of reasons which explain Japan's uncharacteristically strong reaction to Brexit. Even before the Brexit referendum the Japanese Prime Minister Shinzō Abe made clear his country's preference for the UK to remain in the EU. At a joint press conference with then-UK Prime Minister David Cameron in London one month before the Brexit referendum, Abe stated clearly:

*"The question on Brexit, this is a matter to be decided by the British people. But I believe that, because of the close partnership with the UK, Japan's interests are also at stake. Japan very clearly would prefer Britain to remain within the EU. It is better for the world that Britain remain in a strong EU."*  
(author's emphasis)<sup>xxii</sup>

Immediately after the vote the Japanese diplomatic and business communities promptly came together to coordinate responses and a joint position. The international diplomatic community was caught by surprise when, a few months later, MOFA released

the afore-mentioned 15-page letter to the UK and the EU, a “wish list for Brexit” of sorts for the Japanese on the future relationship between the UK and the EU:

“The Government of Japan trusts that the UK and the EU [...] will *maintain the current business environment or alleviate the impacts of any radical changes*, so as to remain an attractive destination for doing business.” (author’s emphasis)

The Japanese position has remained consistent about its preferences for Brexit from the very beginning: no Brexit or the “softest” form of Brexit, with unhindered access to the European Single Market – preferably preceded by a very long transition period that would allow Japanese businesses to adapt to changes.<sup>xxiii</sup> Its 15-page letter sent an important message to the UK and the EU, and was the expression of Japan’s desire to influence the negotiations in a direction that is beneficial for its interests. The letter marked the beginning of a series of less visible, but no less ambitious, frequent visits and consultations between Tokyo, London and Brussels – as well as occasional public statements from the Japanese Ambassador in the UK.<sup>xxiv</sup> The Japanese business association Keidanren in particular is in close contact with its businesses operating in Europe, listening to their concerns, and advocating for their interests during period trips to Brussels and London, where they meet with some of the highest level decision-makers. Japanese business representatives told the author that both the EU and the UK welcome these meetings as an integral part of the negotiations, and a “reminder” of sorts that their outcome will impact third parties as well.

The Brexit decision left the Japanese side dumbfounded and, almost a year since the negotiations officially started in June 2017, Tokyo is left wishing for more clarity about the post-Brexit relationship between the EU and the UK. The Japanese side is puzzled by the British government’s rhetoric about the global opportunities that will follow Brexit because they think opportunities for closer cooperation between the UK and other parts of the world have always been there. While there are some Japanese officials and business representatives<sup>xxv</sup> who think the UK has the potential to reinvent itself and make the best of Brexit, others privately say they find British position on “Global Britain” perhaps “a little patronizing—the more so because they question whether an independent UK will continue indefinitely to play a top-table role in the world.”<sup>xxvi</sup> From this perspective, discussions in Tokyo generally reflect the view of Donald Tusk, President of the European Council:

“because of Brexit [the EU and the UK] will be drifting apart. In fact, *this will be the first FTA in history that loosens economic ties, instead of strengthening them*. Our agreement will not make trade between the UK and the EU frictionless or smoother. It will make it more complicated and costly than today, for all of us. This is the essence of Brexit.”<sup>xxvii</sup> (author’s emphasis).

As recently as April 2018, the Japanese Ambassador to the United Kingdom, Koji Tsuruoka, gave an interview to *The Guardian* in which he stressed Japan’s preference for “no” or the “softest” Brexit possible, saying “The EU is a very exceptional single market. I

don't think the single market could be substituted by something and be better or even be the same.”<sup>xxviii</sup>

## II. *EU-Japan relations after the Brexit referendum*

The Brexit referendum – together with the decision of U.S. President Donald Trump to pull the U.S. out of the Trans-Pacific Partnership (TPP)<sup>xxix</sup> – have made Japan more determined to strengthen its ties with like-minded allies across the world. Japan has pursued a dual-track approach with the EU that includes an intensification of negotiations on economic and political agreements that had been under discussion before 2016. In parallel, Japan has also begun a parallel set of discussions with the UK aimed at reaffirming the strong economic, political and military ties between the two partners. While Japan is not in any way in a “either [the EU]-or [the UK]” position, it believes that the best solution to promote its interests would be for the UK to reconsider its Brexit decision, thus amplifying the impact of the Japan-EU agreements under discussion.

### II.1. *EU-Japan economic cooperation*

The first “bud to blossom” in the EU-Japan cooperation post-Brexit referendum was the EU-Japan Economic Partnership Agreement (EPA). Even if, as acknowledged by Norio Maruyama, spokesperson for the Japanese government, it was too early to “predict [...] the real effect of Brexit” on the EPA,<sup>xxx</sup> the EU and Japan demonstrated significant political will to reach an agreement. In repeated conversations during 2017 Japanese contacts stressed that the conclusion of the EPA – alongside that of TPP after the U.S. withdrawal (“TPP11”) – was one of the most important foreign policy priorities for Japan, enjoying support at the highest political levels. As a result, the two sides reached an agreement in principle in July 2017,<sup>xxxi</sup> and finalized their negotiations in December 2017.<sup>xxxii</sup>

EU and Japan are important trade partners for each other, but this agreement promises to bring them even closer. For example, in 2016 Japan was the EU’s second largest trade partner in Asia, with 3.6% of trade. In real terms, Japan still ranks far behind its most important Asian partner (and second overall, after the U.S.), China, with 14.9% (see table below). The EU is also the second destination worldwide for Japanese investments, after the U.S.

No.	Total EU trade with...	Million euros	Share (%)
1.	USA	613,975	17.8



2.	China	514,597	14.9
3.	Switzerland	263,855	7.6
4.	Russia	191,185	5.5
5.	Turkey	144,653	4.2
6.	Japan	124,636	3.6

Source: The European Commission.

Media reports have dubbed the EU-Japan EPA the “cars for cheese” deal because it significantly reduces or altogether eliminates approximately 98% of all tariffs between the two parties. According to EU estimates, European companies will save up to €1 billion in customs duties per year, and the value of EU goods and services could rise by up to €20 billion as a result of the EU-Japan EPA.<sup>xxxiii</sup> European partners are likely to benefit from increased exports of chemical products, automobiles, processed food, medical devices – as well as enhanced cooperation in telecommunications and financial services, the protection of IPRs, and the partial opening of public procurement in certain cities. From Japan’s perspective, some of the biggest benefits of the EU-Japan EPA include tariffs elimination for specific industrial goods (e.g. 10% on auto parts, 14% on electronic devices), movement of persons and other barriers, and transparency and improvement of the operation of regulations.<sup>xxxiv</sup>

European businesses welcome the opportunities the EPA brings to open this specific East Asian market which has been “more closed” than other markets around the world because of the “particular characteristics of the Japanese economy and society, such as the local business culture, and consumers with strong domestic preferences” but in most part because of “the large number of regulatory and other ‘behind the border’ obstacles.”<sup>xxxv</sup> In their turn, Japanese companies also complain about nontariff barriers to the EU market, because of incomplete alignment of regulatory and legislative frameworks in individual EU member states. At the same time, Japanese officials privately acknowledge that the country – which produces the lowest percentage of agricultural goods among OECD countries – is prepared to open its market to European goods to address the problems of an ageing agricultural labor force as well.

The EU-Japan EPA is by all intents and purposes a “mega trade agreement” that includes in its 21 chapters not only provisions related to lifting tariff and non-tariff barriers to trade, but also measures to address environmental degradation, labor rights, intellectual property rights (IPRs), etc.<sup>xxxvi</sup> Consequently, Prime Minister Abe called the EPA a “model for the 21<sup>st</sup> century.”<sup>xxxvii</sup> European and Japanese officials both believe that the EPA is one the best options available to address some of the shortcomings of the current World Trade Organization (WTO) system and set standards for global trade in the modern era.

Last but not least, the agreement is important because it stresses the importance of common values, and a shared commitment to free trade, rule of law, and fundamental rights. Consequently, third parties have also praised the EPA its contribution to promoting

democratic values globally. Writing in *The Japan Times* a month after the conclusion of the negotiations, former NATO Secretary General Anders Fogh Rasmussen stressed that:

Besides economic benefits [the EU-Japan EPA] sends a powerful sign that *U.S. retrenchment will not see the democratic world abandon our values. This trade agreement is about freedom, and we need Japan to help us defend it.* (author's emphasis)<sup>xxxviii</sup>

The agreement is the result of eighteen months of negotiations which started in 2013. The EU and Japan announced the start of the negotiations only a few months before the EU-South Korea free trade agreement (FTA) came into effect in July 2011. Given the similarity of the two East Asian economies, Japanese businesses were worried South Korea now had a comparative advantage because of the FTA, and pushed hard both for the start and the conclusion of the EPA negotiations. However, it took the Brexit vote and the U.S. decision to withdraw from TPP that the EPA to seal the two sides' commitment to the deal. After going through the so-called "legal scrubbing" and translation into the 22 official EU languages (and Japanese), in April 2018 the European Commission presented the final text for ratification, with the expectation that the European Council will ratify it at their next summit on June 28-29, 2018.<sup>xxxix</sup> The EU and Japan aim to sign the final document in Brussels a month later, and there is great political will on both sides to ratify the agreement in time for it to come into force in early 2019, just before Brexit. Ironically, at the time when negotiations were first announced in 2011, they were part of a global trend of mega-FTAs, but the EPA is one of the few to be finalized and which stands a good chance of being adopted and implemented.

In addition to the ratification and adoption of the EPA, the EU and Japan are also negotiating an agreement on data protection, and on investment protection standards and dispute resolution.

## *II.2. EU-Japan political and security cooperation*

In parallel to the EPA, the EU and Japan also negotiated a Strategic Partnership Agreement (SPA) – concluding it with a delay of a few months, on April 25, 2018.<sup>xl</sup> Despite the fact that some policymakers describe it as the "big bang" of bilateral relations,<sup>xli</sup> the document is more modest in purpose than its economic counterpart described in the previous section. The EU and Japan have been strategic partners since 2003, and are now looking at the SPA to upgrade their relationship. Their goal is to move away from the current sectoral and segmented approach towards a comprehensive, legally binding framework of cooperation.

While, as *The Economist* put it, the document appears to contain "little to thrill the soul,"<sup>xlii</sup> its importance should not be understated. Quoting sources from the Japanese

Ministry of Foreign Affairs (MOFA), Marie Söderberg noted that the document “represents something completely new for Japan, insofar as it has essentially had no such agreements with any other parties” other than the U.S.-Japan security treaty and a looser agreement on political cooperation with Ethiopia in 1954.<sup>xliii</sup> The SPA includes political and regional dialogues, provisions related to the promotion of human rights and fundamental freedoms, as well as economic, scientific and cultural cooperation.<sup>xliv</sup> In its essence, “the SPA is meant to create synergies between the EU’s ‘comprehensive approach’ to regional and global security and Japan’s ‘human security’ concept in the Middle East and Asia.”<sup>xlv</sup>

SPA negotiations have not been altogether free of controversy. In particular, the Japanese side has been wary of the introduction of the EU’s so-called “essential elements clause” that the EU typically includes in all agreements with third countries to promote respect for human rights.<sup>xlvi</sup> This provision makes Japan uncomfortable particularly because of the country’s position on the death penalty. European diplomats privately acknowledge the EU is highly unlikely to activate the clause when it comes to its engagement with Japan.

Despite its commitment to a “proactive contribution to peace,” the Japanese side has been ambivalent about the extent to which direct engagement with the EU itself – as opposed to individual EU member states or international organizations like the United Nations (UN) or the North Atlantic Treaty Organization (NATO) – would help advance this vision. It is too early to tell whether the SPA will be able to address this matter but, as one Japanese diplomat acknowledged, the framework would permit Japan to directly engage the EU to better understand and address the challenges of populism. As noted in a briefing paper of the European Parliamentary Research Service (EPRS), the EU-Japan annual summits currently have “no equal in the archipelago’s foreign policy, not even with its main ally, the USA,” but “the summits are short in duration and, when it is Japan’s turn to travel to Europe, they are planned as part of longer trips – reflecting the importance Tokyo attaches to bilateral relations with some EU Member States as well as to the EU itself.”<sup>xlvii</sup>

The appeal of the EU for the Japanese partly lies in the fact that, while part of “the West” and closely aligned with the U.S., it exercises power differently than its transatlantic partner. In the immediate aftermath of the Brexit referendum, the EU released a Global Strategy for Foreign and Security Policy,<sup>xlviii</sup> the first document of its kind in more than a decade. As stressed by Nathalie Tocci, senior advisor to the EU High Representative for Foreign and Security Policy Federica Mogherini, shortly after the release of the EU Global Strategy, the document took a “‘whole of EU’ approach, looking also at trade, development, migration, energy, climate and much more” in addition to the security aspects of the strategy.<sup>xlix</sup> Direct engagement with Japan, particularly in free trade matters, is an integral component of this strategy. Andrew Moravcsik even went so far as to suggest that this specific approach to foreign policy makes the EU a superpower that can rival and even surpass the U.S. and China:

“By most objective measures, [the EU] either rivals or surpasses the United States and China in its ability to project a full spectrum of global military, economic, and soft power. Europe consistently deploys military troops within and beyond its immediate neighborhood. It manipulates economic power with a skill and success unmatched by any other country or region. And its ability to employ ‘soft power’ to persuade other countries to change their behavior is unique.”<sup>1</sup>

Another element that may favor international cooperation between the two actors is the fact that they have humble ambitions with regards to defense. Neither the EU nor Japan has outsized expectations regarding their individual defense capabilities or bilateral cooperation in the short to medium term. While the EU it created a permanent structured cooperation (PESCO) for defense matters last year - in part as a response to Brexit – it is cognizant that progress will be slow. Indeed, an “EU army” is nowhere in sight – nor is there consensus among EU member states that there should ever be one. In this sense, NATO Secretary General Jens Stoltenberg correctly pointed out that “the reality is the European Union cannot protect Europe by itself” and the U.S. is still key for defending the continent.<sup>li</sup>

In its turn, given the dependence of Japan on the U.S., Tokyo does not want to antagonize Washington. In addition to the weak competencies the EU has in defense matters, Japan also prefers NATO or individual EU member states (primarily the UK and France) because of the U.S. membership or strong military cooperation as well. In this sense, it is telling that Tokyo is framing its overtones to defense cooperation with Europe in terms of helping the United States. This view was expressed by Foreign Minister Taro Kono at the Munich Security Conference earlier this year. Incidentally, this was the first time a Japanese Foreign Minister attended this flagship conference on transatlantic security in four years, and his panel was titled “The Liberal international order under threat”:

“the United States will continue to play a large role in maintenance and development of the international order based on the rule of law, [and] it is important for the international community overall to *help the United States through burden sharing and cooperation*, and that *from this perspective cooperation between Japan and Europe is extremely important.*” (author’s emphasis)<sup>liii</sup>

### III. *Challenges and opportunities for future cooperation*

Could the relationship between the EU and Japan, which scholars characterized in the past as “lukewarm,” of “mutual neglect,”<sup>liiii</sup> or downright “insignificant”<sup>liv</sup> – and one that the European Commission itself has described as “disappointing” in the past -- qualitatively

improve as a result of Brexit? A combination of international and “domestic” factors in both actors seems to suggest that would be the case. With regards to the first, the current U.S. administration’s ambivalence towards the liberal international order it helped created after World War II,<sup>lv</sup> as well as the rise of China, continue to cause much unease worldwide. With regards to the latter, Brexit has provided the impetus for both the EU and the UK to engage in a series of “domestic” reforms and proactive engagement with third parties – Japan included – to prove they can make the best of what at least the EU thinks is a regrettable decision.

Brexit has forced the Japanese diplomatic and business communities out of their comfort zone. The way the UK side has handled the negotiations has stressed an important cultural difference between the Japan and the UK when it comes to risk-management. The notoriously risk-averse Japan has felt uncomfortable and frustrated at times with how the UK side has handled its repeated requests to provide more transparency and certainty in Brexit negotiations. As a result of the ways these negotiations have unfolded – in contrast to Japan-EU EPA and SPA negotiations – have made some Japanese think of the EU as a more stable partner in the current context. They see the EU-Japan EPA in particular a concrete trust-building exercise during which the Japanese side gained much respect for the very seasoned and skilled EU negotiators.

While Japan is unlikely to alter its commitment towards closer relations with the UK, Brexit also provides it with a historic opportunity to engage the EU in a novel way, without the UK serving as an informal intermediary. The first challenge to closer EU-Japan relations is the fact that their cooperation is limited by competencies. Both actors could be described as “economic giants and military dwarfs” and, for reasons related to competencies and traditions, it is fair to expect the economic field to be the most prolific for cooperation. The fact that the EU-Japan EPA is based on fundamental principles provides an added-value by comparison to the type of engagement Europe has with China, for example. At the same time, however, it should be noted that previous bilateral EU-Japan forms of cooperation (1991 Hague Declaration, 2001 Action Plan) were similarly drafted in the name of cooperation based on shared values, but were limited in their actual implementation.<sup>lvi</sup>

It is clear that the relationship between the EU and Japan will grow in the shadow of their larger partner and ally, the U.S. Talks about the triangular relationship between the U.S.-Japan-Europe date back to the end of the Cold War, but the Europe-Japan link has always been the weakest one.<sup>lvii</sup> In this sense, the U.S. welcomes additional cooperation of some of its closest allies, provided it doesn’t undermine overall U.S. strategic interests. In particular, joint training and cooperation to address newer threats like cybersecurity or disinformation campaigns conducted by countries like Russia and China could prove to be mutually beneficial. In principle, the U.S. should also welcome the closer economic ties between the EU and Japan as a means to promote free trade worldwide. At the same time, the EU-Japan data protection agreement and certain provisions in the EU-Japan EPA such as Geographic Indicators (GIs) for agricultural products could negatively affect U.S.

interests. With regards to the latter, for example, the U.S. has long opposed such regulations, arguing that they prevent U.S. food and drink makers selling their own products into third markets.

To conclude, while the current situation presents favorable conditions for closer EU-Japan cooperation, the two sides have to be careful not to put too much on the plate from the very beginning. A more modest agenda of cooperation – especially in political and defense matters – will help build the trust and understanding necessary for more substantive engagement in the future. The key to success is perseverance and patience because, as former EU chief negotiator of the SPA said, “ambitions like the ones [the EU and Japan] are pursuing with the [EPA and the SPA] cannot be fulfilled in a day.”<sup>lviii</sup> Or, as Axel Berkofsky put it more bluntly, “the longer the list becomes, the less the EU and Japan arguably present themselves as credible foreign and security policy partners.”<sup>lix</sup>

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