

# The EU and Japan as Global Partners - Wishful Thinking or Achievable Goal?

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### **Introduction**

President Baron Velge,

I am very honoured to have been invited by the Belgium-Japan Association and Chamber of Commerce to address your annual general meeting today on current developments in EU-Japan relations. I have noted - with some trepidation - that I follow an impressive line of speakers including my former Commissioner Sir Leon, now Lord Brittan, Ambassador Tokinoya and Vicomte Davignon, the current European Chairman of the EU-Japan Business Dialogue Round Table. In common with these distinguished gentlemen I believe in the importance of strengthening EU-Japan relations and that there is much we can do to further develop our relationship and enhance our global partnership.

This will be the theme of my address to you today. I appreciate being able to deliver this to you in English - a testament to the internationalism of Belgian and Japanese business.

I will be speaking to you in a personal capacity.

### **The basis for a closer EU-Japan political partnership**

The EU and Japan have much in common.

As codified in the 1991 Political Declaration which still governs relations between Japan and the EU, we have a shared attachment to the core values of democracy, the freedom of our peoples, respect for the rule of law and for the protection of human rights. The application of these values determines the way in which each of us conducts our bilateral relations and our foreign policy.

The EU and its Member States and Japan constitute advanced societies which having secured liberty and democracy now have as a main objective to prevent and minimise risk so that their peoples can live in peace and security. We

manage these risks - which sometimes become threats - in many ways, individually and, increasingly, collectively, working together through multilateral, plurilateral and bilateral partnerships with other like-minded states.

Let me give some examples of where the EU and Japan cooperate today to jointly manage risk.

Firstly, in coordination with other international efforts Japan has been a very generous donor of reconstruction and rehabilitation assistance to Bosnia, Kosovo and surrounding territories. Over \$1 billion has been pledged by Japan to this region. One may ask why has Japan felt it necessary to engage itself so deeply so far from its territory?

Because Japan considers it important to join in international efforts to restore peace and stability in a part of the world which, while not a direct security threat to Japan, could nonetheless destabilise the European continent in which Japan clearly has major interests.

Secondly, let us take look at European engagement in Asia.

The EU is an important contributor to efforts to achieve non-proliferation, peace and stability on the Korean peninsula. In partnership with the US, Japan and the Republic of Korea we are a member of the Korean Peninsula Energy Development Organisation - KEDO - which is replacing Soviet-era nuclear installations capable of producing weapons-grade fissile nuclear material with two safer proliferation-resistant light water reactors which will operate under the supervision of the International Atomic Energy Authority.

We also supply food aid and other humanitarian assistance to North Korea (\$180 million since 1996) to help overcome food shortages and the humanitarian consequences of an economy in freefall (nine consecutive years of negative growth since 1990). The impact of this economic collapse hits the weakest members of the North Korean population the hardest. The EU is engaged on the Korean Peninsula partly on humanitarian grounds but also, as shown by KEDO, because of the risks of regional instability and the threats to the world emanating from this region. By engaging in this way and by working closely with the US, ROK and Japan, we can contribute to policies designed to encourage North Korea to enter into the world community of nations.

Both these examples illustrate the readiness of the EU and Japan to join together in ad hoc coalitions to manage risk globally. They demonstrate also the increasing interdependence between Europe and Japan - the fact that events geographically far from our shores affect directly or indirectly our respective interests.

Yet there is undoubtedly a great deal more that can be done by the EU and Japan together with other like-minded countries to promote our shared values on the global stage, to prevent conflicts, and, where such conflicts arise, to contribute to managing crises.

To do this we need to build on experience to date to strengthen our political relations in other regional areas so as to create a truly global partnership. This must be done in cooperation with other like-minded countries, notably the US, the privileged partner of both the EU and Japan.

The need to reinforce political relations between Europe and Japan was the major theme of an important speech by Japanese Foreign Minister Kono in Paris in January in which he laid out his vision of a Europe-Japan Millennium partnership. This speech has attracted a positive reaction in Europe as it appears to signal a strong desire by Japan to foster closer ties with the EU and its Member States.

I believe it also constitutes an assessment and a realisation by Japan that the European Union has "come of age" and that Japan's pragmatic foreign policy needs to be adjusted to take account of this fact. The desire by Japan to develop closer political relations with the EU - as well as with Member States - is particularly significant.

The EU over the last decade has taken substantial steps forward towards political and economic integration. In the economic area we have created the single market, put into place economic and monetary union, and launched the euro. Through the Amsterdam Treaty we have strengthened our common foreign and security policy and at the Helsinki Summit in December 1999 important decisions were taken to establish an autonomous European military capacity to take decisions and to launch and conduct military operations "where NATO as a whole is not engaged". This important step forward in creating an effective European Security and Defence Policy will strengthen Europe's ability to prevent conflicts and to manage crises.

This will be combined with a more effective non-military component to conflict prevention and crisis management, areas where the European Commission has great experience and an important role to play. It is precisely in this area that Japan has identified an opportunity to work more closely with the EU.

A final element in Japan's reevaluation of the European Union's role in the world is undoubtedly the planned enlargement of the Union which will expand its frontiers and bring within its ambit new states and peoples.

The upshot of all this is that Japan seems to be preparing for a future partnership with the EU which is more balanced, containing a stronger political dimension, and hence less concentrated than in the past on economic and trade relations, an area where, I might add, the EU has traditionally been "demandeur". This re-focusing of relations echoes the views put forward last year by the Commission in a working paper on Japan and indeed in previous communications to the Council of Ministers.

It would appear therefore that there is a meeting of minds here.

#### **Economic and trade relations between the EU and Japan**

Having focused so far on political aspects of EU-Japan relations let me now turn to economic and trade aspects which have up to now been the backbone of our mutual relations. A glance at a few key indicators demonstrates why the EU and Japan are such close partners and have such a major stake in the world economy.

The EU and Japan account for two fifths of world GDP, with Japan accounting for one seventh or some 14 %.

I have to say that even after focusing on Japan for nearly 3 and a half years in my professional life it never ceases to amaze me that such a small geographical space consisting of the islands of Japan manages to produce such a large percentage of world output, a factor explained by the truly remarkable growth of the Japanese economy in the post war period, particularly between 1960 and 1990 when GDP expanded by no less than 6000%.

Japan is of course also the largest economy by far in Asia, accounting for two thirds of regional GDP, and is also our largest trading partner in the region. In fact Japan is the EU's third largest export market and our second largest source of imports.

There are still major imbalances in EU-Japan trade and investment although these declined in 1999 (the bilateral trade surplus declined by 15% in 1999 due principally to a fall in Japanese exports to the EU and a lesser fall in Japanese imports).

On the investment side there remains a very large imbalance in the stocks of foreign direct investment (roughly five to six times more Japanese FDI in the EU than EU FDI in Japan) although recently there has been a significant narrowing in the flows of FDI resulting from greater European investment in Japan. High profile investments such as the 37% stake of Renault in Nissan have contributed to this trend. Foreign investment can bring new ideas and innovation and facilitate industrial restructuring; to do so however the business environment of the host country must be receptive to foreign capital. For too long this was not the case in Japan.

Of course the EU's economic relationship with Japan has been affected very significantly in the last decade by the less favourable evolution of the Japanese economy and the slowdown of economic growth. Let me address this.

### **The Japanese economy**

Whatever one might think about the precise policy mix chosen by the Japanese government to try to restore the vibrancy of the Japanese economy, no-one could I believe accuse the government of complacency. Since 1992 through a succession of supplementary budgets and other spending programmes, the government has "pump-primed" the economy to the tune of around Yen 120 trillion, equivalent to about 25% of GDP, to try to get economic growth back on track.

In addition Japan has taken far reaching measures in the form of a "safety net" of up to 60 trillion to stabilise and restore confidence in the banking system which was under severe strain at the end of 1997 and in early 1998 due to the high incidence of bad loans resulting from the asset price collapse in the early 1990s, a collapse which was compounded by the economic downturn and the onset of the Asian Financial crisis.

Throughout the duration of the difficult economic circumstances in which Japan has found itself in recent years (a situation which is far from over - economic growth has been negative in seven of the last nine quarters in Japan) the EU has consistently stated its support for a strong Japanese economy. This is the interests of the EU, but also of course the Japanese people and Japan's other partners, not least Japan's Asian neighbours. We have encouraged Japan to adopt policies aimed at restoring private sector domestic demand led growth.

While there are signs of some improvement in the economy - job vacancies are increasing, inventories are at a low level, private investment seems to be picking up a little, and the stock market is relatively strong - private confidence has clearly not yet been fully restored in Japan. Overall the picture is mixed, with the good news being counterbalanced by the bad - eg 51% rise in corporate bankruptcies in February this year.

Economic growth forecasts, 0.6% in this fiscal year ending March 2000 and 1% next year - remain modest by past Japanese standards to say the least.

As a parenthesis, and on a personal note, let me add that one of the enduring fascinations of my present job - and one which will certainly stay with me in the future - is the intellectual interest I have derived from trying to better understand how the Japanese economy functions. Japan is really a quite unique economy - in essence the macroeconomic challenge before the authorities is how to cope with a flood of excess savings (now as much as two and a half times GDP). This is a classic Keynesian dilemma. Japan is truly a "laboratory for economic theory" to quote the title of a recent article by a distinguished City of London economist.

The Japanese government's policy to combat the savings problem has, as I have mentioned previously, been oriented around government dissaving - through fiscal stimulus, much of it to the construction industry whose output accounts for a staggering 10-11% of GDP in Japan. Indeed about 75% of the savings surplus has been employed in this way to stabilise the economy. In the absence of a sustained recovery, this policy has inevitably boosted gross government debt levels which are anticipated to rise to 130% of GDP in 2000.

Given Japan's future challenges - notably the rise in social security expenditure resulting from the ageing of the population (I read today that an OECD report calculates that by 2020 Japan will only have two workers to pay for each pensioner compared with four today), the problem of the underfunded pensions system, the risk of a rise in interest rates resulting from an oversupplied government bond market - it is evident that Japan's economic policy makers are confronted with far-reaching short, medium and long term challenges.

The key to economic recovery in Japan is to find a way to restore private sector consumer and investor confidence. The EU has always argued that the conditions for achieving self-sustaining growth in Japan will be greatly facilitated by further ambitious structural reform to improve the supply side of the economy, in order to enhance productivity and the return on capital, to promote more consumer choice and better access to markets. I believe these sentiments are widely shared by Japanese business.

#### **The need to enhance structural reform in Japan**

A major concern of ours at the current time is the evident loss of dynamism in regulatory reform in Japan particularly as we draw towards the next Lower House elections in the Diet which must be held by October 2000. We very much hope that government efforts will be reinvigorated shortly and that political leaders in Japan will launch a new regulatory reform programme to replace the current one which expires in one year's time.

As we have seen in Europe, regulatory reform is not a "discrete time limited" exercise. It is on-going and never really ends.

While much progress has been made in Japan in improving the regulatory environment - in financial services for example through the Big Bang programme, a very great deal remains to be done in our view to create a fully transparent, open, competitive market economy in Japan. The absence in particular of an effective competition policy has in our view a major impact on the functioning of product and service markets in Japan.

I do not wish to dwell here on details of the EU's specific and voluminous regulatory reform requests to Japan (over 150 with some 45 priorities) which we discuss with Japanese Ministries in our two-way High Level regulatory reform dialogue.

But I would like to highlight just one specific example of where we believe significant change is necessary.

I refer to the very longrunning controversy over the charges for telecommunications companies to interconnect to the fixed NTT network in Japan. These charges will determine in large measure the future costs of competing telecom services in Japan. It is surely in the interests of Japan in today's information society age that services be as economically priced as possible. Yet, and despite representations from the EU, US and Japanese user companies, the planned reduction in interconnection charges in Japan - a mere 22.5% over 4 years according to my latest information, - will not make any real impact in reducing the disparity between excessively high Japanese charges and those of other countries and indeed will make the situation worse. Present interconnection costs are 2-3 times higher in Japan than the average

rates applied in the EU. On current trends there is no possibility whatsoever of getting convergent price structures between the EU and Japan.

I rest my case.

### **Regulatory Reform in Europe**

Having dwelt some time on Japan, I would not like to leave you with the impression that our discussions on regulatory reform are one way.

Three weeks ago I chaired a meeting with the Japanese Administration in which Japan's regulatory reform requests were presented to the EU. We had 5 expert group meetings - on subjects such as the forthcoming directive on electronic waste, driving licenses, and visas, as well as a broad-ranging plenary meeting. Twenty three Member State experts took part in these meetings - as well as a large number of Commission staff.

The Commission welcomes Japan's requests which, inter alia, help us to identify areas of our internal market which may need improving or are incomplete. While we cannot always respond positively to Japan's requests (any more than Japan can do to ours) we do take them seriously. An effective two way dialogue is in the interests of both sides and is a sign of the maturity of our relations. While the current dialogue may need refreshing its core concepts should be retained.

From the Japanese side I am sure that the newly formed Japan Business Council in Europe, whose inaugural reception I had the pleasure of attending yesterday, will channel requests for reform in the EU to the Japanese administration and keep us on our toes!

### **Multilateral trade relations**

From this brief survey it is evident that the EU and Japan, have strong bilateral trade and investment links and a common interest in the health of the world trading system which is vital to promote growth and the wealth of our peoples.

We both believe in the efficacy of markets. But we also share the view that economic globalisation should be "harnessed" or "maîtrisée". We do not wish to see our societies, our longstanding cultural values and heritage and our traditional ways of life subverted and dominated by market forces. The preservation of cultural diversity is important to us.

To summarise - market economy - yes, but market society- no.

This common European-Japanese approach can be seen in our common view of the importance of the multilateral rules-based trading system embodied in the WTO. The EU and Japan have also been at the forefront of countries seeking an early launch of a new Multilateral Trade Round so as to ensure that the multilateral system functions more effectively and is adapted to the requirements of the 21st century.

Up to, during and now beyond the Ministerial Conference in Seattle, the EU and Japan have worked closely together closely to promote the need for a Trade Round with a broad, comprehensive agenda, encompassing more than the "built-in agenda" items (agriculture and services). Our priorities are unchanged: better market access to improve growth, the improvement of existing rules and disciplines in areas of existing WTO competences (eg TRIPs, SPS) and the establishment of additional rules for investment, competition, and trade facilitation to respond to the effects of globalisation.

The EU and Japan also share the view that the New Round should answer questions of public concern and take into account the social and environmental dimension of economic development. It should pay due regard to "non-trade

concerns" as well as the sustainable use of exhaustible natural resources and environmental aspects. This common approach flows naturally from our common vision on how to "harness globalisation" to which I referred earlier.

Finally, Japan and the EU also consider it essential to secure the active participation of developing countries in the WTO to respond appropriately to their concerns and to better integrate them into the trading system.

The close cooperation we have achieved with Japan so far in the WTO is, I believe, unprecedented in terms of our economic relations. In the WTO context it exists at all levels of our administrations - from the top down - and constitutes I believe a model for pursuing other projects - economic and political - where we can identify common interests. This cooperation transcends consultation and dialogue and constitutes real policy coordination and drafting of common texts. As a confidence building exercise and in demonstrating what can be achieved if we work together effectively I can think of no other comparable parallel to that which exists between us in the WTO. I trust that this alliance will endure once real negotiations begin in the New Round.

#### **Enhancing Business Dialogue**

A very positive recent development in EU-Japan bilateral relations has been the strengthening of the EU-Japan business dialogue and the prospect of much greater private sector input into the governmental agenda. Stronger private sector involvement seems to me an essential part of efforts to reinforce economic relations between the EU and Japan. The Commission for its part welcomes this positive development and we look forward to receiving proposals from European and Japanese companies, coming together at the next meeting of the EU-Japan Business Dialogue Round Table in Japan in July, on how to improve the trade and investment climate in Europe and Japan to the benefit of both sides.

#### **Broadening Cooperation and people-to-people exchanges across diverse fields**

It is perhaps not appropriate in a speech of this nature to highlight all actual or potential areas of EU-Japan cooperation. I would like to emphasise however that in addressing global challenges - such as protecting the environment, promoting development and poverty reduction, adopting employment policies and measures in relation to the ageing of our societies, promoting social protection and creating employment, combating international crime - to give just some examples, there is undoubtedly a great deal we can learn from each other and indeed do together whenever our interests coincide.

In all our multifarious activities with Japan we attach a particular importance to people-to-people exchanges. These can never be enough as there is no limit to the benefits that can be derived from giving a chance to our people, particularly young people, to experience life at the other end of the world. These formative experiences can, over time, help us build bridges, establish relationships, overcome the cultural divide and build awareness.

While we would certainly like to broaden people-to-people programmes we certainly will retain the flagship EU Executive Training Programme, now in its 20th year, under which the Commission selects between 40 and 50 young European executives annually to undergo an 18 month management training course in Japan consisting of 12 months language training and 6 months stages in Japanese enterprises. The EU-Japan Centre for Industrial Cooperation also runs management training and other programmes both here and in Japan.

#### **Enhanced partnership - wishful thinking or achievable goal?**

To return to my title what are the real prospects of establishing, as Foreign Minister Kono said in his speech in Paris, a decade of EU-Japan cooperation through a Millennium partnership?

Without trying to be comprehensive I have tried today to set out in both political and economic fields examples of where EU and Japanese interests coincide and where the actual or perceived potential for partnership is strong.

Identifying possibilities is one thing; translating them into action is another. This requires foresight and political will in Europe and Japan.

As we work towards preparing the next ninth EU-Japan Summit this summer, there is, I believe, a growing recognition in both Japan and Europe of the need to strengthen our ties, to work together to minimise risk and to promote the welfare of our societies. We can do this best when we pool resources and together formulate and implement, wherever possible, common policies.

So for me an enhanced global partnership between the EU and Japan is not wishful thinking. It is rather an achievable goal whose time has come.

Thank you for your attention.