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Europe and Japan should look to each other amid uncertainty about Trump and Xi*

The world of global economic governance needs EU–Japan leadership. To many in Europe and Japan, Trump’s protectionist language has made the US a challenger of, rather than an ally, in protecting the rules-based economic system and the liberal values it embodies. Beijing’s proposition to fill the void seems ironic given China’s lack of real progress to market-opening and reform.

Europe and Japan thus need each other now more than ever. The conclusion of the EU–Japan trade and political agreements would constitute an important acknowledgement of the growing importance of relations between the two sides. But more formal and informal cooperation is needed to improve mutual understanding of differences in tactics, perceptions and political priorities to dealing with Beijing and Washington.

Amid concerns about US President Donald Trump’s economic nationalism and Chinese geo-economic activism in Asia, the EU and its member states are increasingly looking to Tokyo as a partner. European policymakers see Japan as a like-minded country to

help strengthen the open, rules-based international order and to address common political and economic challenges. Both sides have an interest in deeper strategic cooperation. Yet will Europe and Japan be able to overcome differences in tactics, perceptions and political priorities to dealing with Beijing and Washington?

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For many Europeans, Trump’s protectionist language has made the United States a challenger of, rather than an ally in, protecting the rules-based economic system and the liberal values that the European Union (EU) embodies. Quick to step into the void, Chinese President Xi Jinping has presented China as a champion of multilateralism, free trade and liberalization that honors the rules-based order. Although welcome, Beijing’s proposition seems ironic given China’s lack of real progress to opening markets and reform.

Amid much uncertainty about Chinese and American foreign and trade policies, there can be little doubt that Europe and Japan – still the world's second and fourth largest economies, if the EU were treated as a single country – need each other now more than ever. Moreover, the world of global economic governance needs EU–Japan leadership. The commitment by German Chancellor Angela Merkel and Japan's Prime Minister Shinzo Abe in March 2017 to work together on free trade is encouraging. Yet much more needs to be done.

Unlikely partners

At first sight, Japan and Europe are unlikely partners. Under Prime Minister Shinzo Abe, Japan has taken a tough, zero-sum style approach to Beijing – pushing back against Chinese moves to strengthen its influence in the region – through a mixture of domestic muscle-flexing, developing new alliances and strengthening its security partnership with the United States. For their part, Europeans have generally been welcoming of a greater role for China in global economic affairs and in global governance. European governments want to continue to engage China positively.

Japan and Europe also differ in their ways of dealing with Trump. Abe was the first world leader to meet Trump just days after his election in November 2016, and the second to visit the White House. Abe's flattery gained him reassurances on the United States' commitment to the US–Japan security alliance, although not on the Trans-Pacific Partnership (TPP), which Tokyo now continues to pursue with the other ten remaining members. European leaders have been much more hesitant about fighting Trump with sweet talk after the President called the EU a 'vehicle for Germany' and Brexit 'a wonderful thing'. UK Prime Minister Theresa May stirred controversy at home with her early visit to Washington – she was the first foreign leader to meet President Trump – although her visit did little to improve rocky transatlantic relations. Tellingly, it took until late May 2017 before EU leaders Jean-Claude Juncker and Donald Tusk (presidents of the European

Commission and European Council, respectively) met with the US leader.

Japanese and European leaders tend to stress their shared values whenever they meet, but hardly do they take joint action. In the context of China, relations between Europe and Japan can be characterized by 'functional distance'. While European capitals tend to prioritize political and security relations with neighbouring Russia over those with China, the opposite goes for Japan in its relationship with both powers. This is reflective of the fact that relations with direct neighbours tend to be more problematic and immediate. Yet Europe's softer stance on China's maritime aggression in the East and South China Seas – presumably because Europe wants to tap Chinese investment and maintain access to its huge market – acts as a major hurdle to the development of the EU–Japan partnership. Europe's failure to criticize Beijing publicly for acts that disturb regional stability irritate many in Tokyo. The preoccupation of the EU and its member states with problems closer to home – in particular, Britain's decision to leave the EU, the Ukraine crisis and the migration crisis – further adds to the challenge. While Europe has fractious relations with Russia, Japan is trying to rebuild ties with Moscow, as reflected also by Prime Minister Abe's recent meetings with Russian President Vladimir Putin. This has made the functional distance between the two powers more obvious.

Differences between European and Japanese responses to China's growing activism are not difficult to find. Tokyo has not joined the Asian Infrastructure Investment Bank (AIIB) or backed China's One Belt, One Road (OBOR) initiative, despite persistent requests by China. For its part, Europe's role in the great power game in the Asia–Pacific has mainly been to promote trade and investment agreements with individual Asian states such as South Korea, Japan, Vietnam and Singapore. So far, however, Brussels has shied away from mega-trade deals in the region, although it recently restarted talks on a broader economic agreement with the ASEAN group of South-East Asian nations. Most EU member states are keen to engage China on OBOR and half of them became founding members of the China-led AIIB –

including G7 members Germany, France, the United Kingdom and Italy.

Economic opportunism featured prominently in the 2015 decision of many EU member states to join the China-led AIIB. Yet it is symptomatic of growing transatlantic divergence on China that Europe acted in defiance of the United States' wishes about joining the AIIB. Japan's greater loyalty to the United States in general terms is explained at least in part by geographical closeness, and thus Japan's greater stakes in the issue. While Tokyo is keeping a strategic distance from Chinese initiatives, it does cooperate with Beijing in more muted ways. This is illustrated by the (now formalized) cooperation between the Japan-led Asian Development Bank (ADB) and the China-led AIIB, as well as by the China-Japan-South Korea trilateral investment agreement that entered into force in 2014. At the same time, the demise of the TPP, as well as the US and broader uncertainties about the new Trump administration, are reasons for Japan to strengthen relations with other partners, including the EU.

Even if European and Japanese short-term tactics diverge, the two sides share the long-term interest of upholding an open, liberal and rules-based economic order. As great economic powers, Europe and Japan have substantial (in)direct influence in the Asia-Pacific region. They play a role in the success of Beijing's geo-economic signature projects in the Asia-Pacific: OBOR; the AIIB; and China's counter-proposition to the TPP – the Regional Comprehensive Economic Partnership (RCEP) – which excludes the United States and encompasses the vast majority of Asian economies. Also, Japan and Europe have an important role to play in tempering the worst effects of Trump's economic nationalism, including its challenge to rulings of the World Trade Organization. In South-East Asia, Japan and the EU-28 are ASEAN's second and third biggest trade partners – after China – each at roughly 10 percent of ASEAN's total trade in 2015. Moreover, between 2010 and 2015, the EU was the first source of foreign direct investment (FDI) into ASEAN from outside the region, while Japan ranked second.

This all suggests that Europe's and Japan's cooperative efforts to steer any of the major players in a certain direction are likely to have substantial impact. This potential should be exploited – for example, by offering Asian countries alternatives to signing on to the Chinese value proposition and by helping them to resist Chinese moves when those infringe on their sovereignty or territorial integrity. This includes aggressive Chinese actions in the South China Sea or specific OBOR projects such as the China-Pakistan Economic Corridor, which India opposes. More, and coordinated, support for sustainable development and regional security and stability can contribute to Europe's and Japan's shared objectives.

The United States' and China's long shadow

While the region's US-led web of security alliances has long contributed to stability in the region – including for European companies and governments keen to preserve their economic interests – the future is uncertain. On the positive side, the United States' commitment to the security of its Asian allies is now supported by the Trump administration, as Defense Secretary James Mattis and Vice-President Mike Pence confirmed in their trips to East Asia in February and April 2017. Tokyo still worries, however, about the implications of Trump's 'America First' policy – for example, the possibility that Trump might strike a deal with China's President Xi and the destabilizing effects of US policy towards North Korea. Trump's decision to withdraw from the TPP – the trade deal heralded as the most advanced attempt to set a new standard for global trade – opens up space for China to lead trade liberalization efforts in the region and to increase its economic and geopolitical influence in the region. Changes in Washington's policy towards China and the region require new thinking in Japan and Europe about how they can protect their shared economic and political interests.

To the extent that OBOR also implements Beijing's carefully orchestrated industrial

strategy, China risks stoking tensions with European, Japanese and other foreign trade partners, which complain about Chinese state-owned enterprises, unlawful subsidies for Chinese firms, state support for Chinese acquisitions abroad and limited opportunities for foreign firms in the Chinese market.¹ In the words of EU Trade Commissioner Cecilia Malmström: ‘Whatever President Xi says in Davos, China is still far from a market economy.’² Disputes over trade were also the main reason why Brussels and Beijing abandoned their planned joint statement after the EU–China summit in early June. The broader concern held by China’s trade partners is illustrated by the words of a Chinese scholar with close ties to China’s Ministries of Foreign Affairs and of Commerce that ‘China’s logic of economic partnerships is not a neo-liberal one, nor a fully rules-based one’.³

Albeit in different ways, the EU and Japan are also affected by Chinese attempts to reform existing institutions further – notably the World Bank, the International Monetary Fund, the World Trade Organization and the ADB. While the size of China’s economy suggests that it is time to relinquish more influence to Beijing, such change should come with greater (financial) contributions from China to these global institutions and China conforming to existing (albeit evolving) standards. Both Europe and Japan are searching for a proper response to Chinese initiatives to create parallel institutions of global economic and financial governance, and to establish new cooperative networks. This concerns not just the AIIB and OBOR, but also regional and bilateral economic agreements such as RCEP and China’s ‘16+1’ platform with Central and Eastern Europe, as well as activities by Chinese policy banks that

finance economic and trade development and state-invested projects abroad. Ambiguity and opaqueness in China’s official communication prevails with many of these activities – including on (planned) projects funded by Chinese banks and their adherence to environmental and government procurement standards. Japan and Europe stand to gain from exchanging notes, concerns and opportunities on these issues, which in turn establishes a starting point for deeper discussions on joint and coordinated action to address challenges.

Beyond the trade and political agreements

After years in which the EU–Japan Strategic Partnership was mostly one of lofty rhetoric, both sides are starting to realize that the time is now ripe for more functional cooperation based on a shared strategic vision. Formal attempts to coordinate foreign economic policies and deepen bilateral ties started only in 2013, when leaders agreed to start the parallel progress towards a trade agreement and a (binding) political agreement. While challenges remain, the appeal of showcasing two like-minded partners that wish to protect and strengthen the rules-based international order has never been stronger.

With the future of the TPP and the EU–US Transatlantic Trade and Investment Partnership (TTIP) in doubt, the establishment of the EU–Japan Economic Partnership Agreement (EPA) symbolizes the main push of large established economies to promote economic governance with more advanced and deeper trade and investment rules. Setting an example on the far-reaching elimination of non-tariff barriers is essential. Also, more straightforward tariff reduction should be regarded as a welcome opportunity to further domestic reforms, including in the field of agriculture. More fundamentally, the value of the EPA lies in its potential to promote norms that the EU and Japan share, including on sustainable development, labour rights, freedom of movement, agriculture (including non-genetically modified goods), protection of

1 European Chamber of Commerce in China, *China Manufacturing 2025: Putting Industrial Policy Ahead of Market Forces*, Beijing, 7 March 2017, available [online](#).

2 ‘Europe’s Progressive Trade Policy’, speech by European Commissioner for Trade Cecilia Malmström at the European Business Summit, Brussels, 22 May 2017, available [online](#).

3 Email communication with the author, 21 February 2017.

intellectual property rights and government procurement.

For its part, the Strategic Partnership Agreement (SPA) aims to strengthen relations on a broad range of topics including climate change, energy, science and technology and non-proliferation. Missing in political agreements that the EU signed earlier with other partners – including Canada and Singapore – is cooperation on global economic and financial governance. The EU and Japan would do well to address this omission in their agreement, which is now nearing completion.

Complementing the deepening of official EU–Japan relations, second-track dialogues involving think-tank researchers and academics have increased. Japan is now departing somewhat from its almost exclusive focus on the United States to engage also with European counterparts (especially Germany and France) more regularly. Many more of these informal exchanges are needed, however, to promote mutual understanding, with an eye to promoting shared long-term strategic interests in the Asia–Pacific region.

Europe and Japan have so far failed to formulate a common strategic vision of a world in which China is more influential – both at the EU member state and at the EU level. Conclusion of the EU–Japan EPA and SPA would constitute an important acknowledgement of the growing importance of relations between the two sides, but it

should be regarded as a first step in the long-term process, rather than an endpoint. The SPA should provide impetus to create a platform to discuss current and upcoming issues of global economic–financial governance, including the AIIB, OBOR and trade deals.

Mutual benefits of coordination

Even if European capitals and Japan are unlikely to arrive at a shared understanding of China's rise and of the evolving role of the United States in global and regional affairs, the EU and its member states stand to benefit from exchanging notes with Japan about China. This will also contribute to improved mutual understanding of differences in tactics, perceptions and political priorities on both sides. For its part, Japan could gain from a stronger Europe that would engage China with a realistic assessment of how the Chinese government's pursuit of its interests interferes with Europe's own.

The unpredictable nature of US foreign policy today provides even more reason for Europe and Japan to coordinate their policies. A stronger EU–Japan partnership should attempt to soften the hard edges of the traditional US approach to dealing with China, and to convince the new Trump administration of the importance of maintaining – and, ideally, deepening – the liberal, rules-based international system of global economic governance.

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