

# How Geoeconomics Advances Geopolitical Cooperation: The Case of EU-Japan Relations

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ABSTRACT	<p>The relationship between Japan and the EU has developed and matured over the last decades. It comprises both the complex economic relations that were recently formalized in the Economic Partnership Agreement (EPA), and the subsequent Strategic Partnership Agreement (SPA) that covers a broader set of political issues. Here, we are addressing the trade diplomacy interaction that has been associated with the long negotiation process between Japan and the EU. This article seeks to answer the following question: How has the geopolitical relationship between Japan and the EU evolved based on the context forming the EPA? The empirical section discusses the development that led to the establishment of the EPA and the SPA, as well as to the current relationship and additional agreements. Our findings suggest that the EPA has been central to the deepened political cooperation between Tokyo and Brussels, emphasizing the role of an FTA in contributing to the solidifying of a changing geopolitical order.</p>
KEYWORDS	Japan, EU, geopolitics, geoeconomics, Economic Partnership Agreement, Strategic Partnership Agreement
DOI	<a href="https://doi.org/10.32422/cjir.946">https://doi.org/10.32422/cjir.946</a>
PUBLISHED ONLINE	18 February 2025

## INTRODUCTION

Europe has traditionally been one of the main destinations for exports from and direct investments by Japanese firms in the process of the continuous internationalization and deeper integration in global value chains. The successful discussions about the free trade section of an Economic Partnership Agreement (EPA)<sup>1</sup> between Japan and the European Union that were initiated in early 2019, can be seen as a framework for carrying out a geopolitically better-balanced trade and investment policy. The main objective is securing and consolidating the position of Japanese companies on the European market and hence building a favorable geopolitical platform for the two stakeholders.

In the current global context, it has become increasingly difficult to separate economic and political aspects of external trade and investment, and there is a dynamic process over time and space shaping the geopolitical context. This development has led the globalization of the last few decades towards a more complex development path. The interconnected world has thus raised new possibilities for states to engage in geoeconomic activities to take advantage of their being in the central parts of networks such as finance systems, payment systems and the trading system (EICHENGREEN 2024). However, the world that is interconnected through complex value chains and production networks has made decoupling more difficult for actors (E.G., LEONARD 2016; FARRELL – NEWMAN 2020). Now companies need to constantly reassess their positions in the market and their industrial footprint in relation to these macro level dynamics. This also incorporates their ability to reposition the business models and long-term investments abroad based on the geopolitical context and preconditions. The new geopolitical setting has also to some degree blurred the border between companies and states using geoeconomic measures to gain advantages against adversaries (IBID.). In parallel, more striking events such as the Brexit vote in the UK as well as the Russian war against Ukraine will have a profound impact on the business environment from a geoeconomic and geopolitical perspective. Similarly, the Chinese Belt and Road Initiative (BRI) is an example of a case where geoeconomic actions are used to reconfigure the geopolitical landscape. These developments within geoeconomics and geopolitics have also generated a dynamic effect of bringing like-minded countries even closer together (EICHENGREEN 2024). Against the backdrop of the EPA, the subsequent

Strategic Partnership Agreement (SPA) between the EU and Japan is a further case of a new type of collaborative platform where issues traditionally not handled within trade negotiations are included. States need to handle the new geopolitical situation, and companies need to sustain their competitive advantage in a global market.

The knowledge about the political underpinnings for the EU-Japan EPA is elaborated to a lesser extent in the economics literature. Some exceptions, however, are recent studies related to the broader institutional context but with an empirical focus on other EU agreements (E.G., ALVSTAM ET AL. 2014; KASTENG ET AL. 2022). From the perspective of the institutional setting and political economy relationships between the EU and Japan, we aim to address the interconnected nature of the trade diplomacy that has been associated with the long negotiation process between the government of Japan and the European Commission.

The EPA between Japan and the EU has been the forerunner in shaping a new geoeconomic collaboration within a changing geopolitical context. The subsequent SPA has formed the next step in both widening and deepening the relationship. In addition, other agreements have been added, comprising areas such as connectivity and infrastructure, the green transition, digitalization and the EU-Japan defense and security collaboration (STRÖM - VADI 2023). With limited analyses of the geopolitical dimension of the formation of the EPA and the SPA, this article seeks to answer the following research question:

*How has the geopolitical relationship between Japan and the EU evolved based on the context forming the EPA?*

To answer this question, the article looks into the development of the EU-Japan economic relationship over time, providing an insight into the economic situation preceding the establishment of the EPA and the SPA, and the role the EPA has played in shaping the current geopolitical relationship between Japan and Europe.

## METHOD

Our study and discussion build on a review of open-source documents from core institutions of our research interest such as the Japanese government and the EU Commission. Furthermore, peer-reviewed scientific articles, news articles and research from recognized sources such as the Asian Development Bank Institute (ADBI), the Organization for Economic Cooperation and Development (OECD), UNCTAD, and the World Trade Organization (WTO) have constituted the empirical base for our research. We have compiled the sources for this research in Table 1, and further details of the sources can be found in the reference list.

TABLE 1: QUALITATIVE DATA SOURCES FOR OUR RESEARCH. SEE THE REFERENCE LIST FOR FURTHER DETAILS OF THE SOURCES THAT HAVE BEEN USED IN THE DISCUSSION

Sources	
News articles	Nikkei Shinbun (Japanese edition)
Government agencies	The Government of Japan
Research from international organizations	The European Commission (the EU Commission) The Government of the United Kingdom EU member state government agencies
Academic research sources	ADBI OECD UNCTAD WTO
Academic research sources	Peer-reviewed articles Books/anthologies Working papers

The information was analyzed thematically using a data source triangulation process (DENZIN 2009), where we used the qualitative sources specified in Table 1 to construct a scheme of themes (BRAUN - CLARKE 2006) for our analysis. Our analysis approach can be described as iterative, as we moved back and forth between the sources in our analysis process. The themes were developed first by identifying initial codes in the source material, and then by establishing the themes themselves. This work resulted in four aggregate themes: the EU free trade promotion initiatives; the Japanese free trade promotion initiatives; the joint efforts of Japan and the EU towards an EPA; and the context and process of the negotiations. These themes constituted the foundation for our analysis.

## LITERATURE REVIEW

The literature on trade regimes and economic statecraft discusses at length both positive aspects of economic diplomacy (E.G., WANG 2006; KAWAI 2005; CHIA 2010) and its negative aspects (E.G., LEW – NEPHEW 2018; AGGARWAL – REDDIE 2021, 2024). In this literature, FTAs are generally recognized as a natural consequence of the post-war efforts to create economic gains through a world trade order promoting the general wealth and utility of the world population (CHIA 2010). However, it is also recognized that the large trading blocks that have emerged during the same period have gained a dominant position in world trade at the expense of the developing world (E.G., LEW – NEPHEW 2018). More recently, the mounting trade frictions between the world’s largest economies, that is, the US and China, have given rise to concerns about whether the established world trade order is challenged (AGGARWAL – REDDIE 2024). It is from this vantage point that the efforts in Brussels and Tokyo towards a comprehensive and deep-level economic partnership framework should be understood. Recent research shows how the world is facing a change in globalization and that actors within the system on both the national level and the firm level are adjusting to this reconfiguration. On the one hand, it seems that countries that share similar ideas of a rules-based international order are seeking a closer collaboration, but at the same time, the deep entanglement of value chains and production networks makes it complicated to completely decouple (FARRELL – NEWMAN 2019; EICHENGREEN 2024).

## INSTITUTIONAL BUILDING BLOCKS SHAPING THE GEOPOLITICAL CONTEXT

After the fall of the Soviet Bloc in 1989, it was a natural choice for Japan to stick to its traditional post-war policy under an American security and commercial umbrella, which was supported by a growing European Union. The development towards a “tri-centric” world order, however, in which the American hegemony is challenged by a rising and increasingly self-confident China, has forced a change of Japan’s foreign economic strategy, both regionally and globally. These changes have naturally also given rise to an increasing focus on political aspects of economic issues among economists, and a growing interest in economic aspects of security policy among political scientists. The “geopolitics-turn” seen in international business research is reflected in a growing number of contributions that suggest

that the long-term globalization has come to an end, and that a process of “de-globalization” and “de-coupling” between the main political and economic blocs will dominate the foreseeable future (SEE E.G., CUERVO-CAZURRA ET AL. 2020; GUILLEN 2018; WITT 2019A, 2019B). These views are in many ways contested by other groups of scholars – e.g., Li (2021), who uses the term “*bifurcated governance*” to describe two contrasting sets of game rules. This can be illustrated with the contrast between “rule of law” and “rule of ruler,” as represented by the U.S. and China (JANNACE – TIFFANY 2019; PETRICEVIC – TEECE 2019; BUCKLEY 2020; ALTENBERG 2021), as some see this conflict as leading toward a new Cold War (HAGSTRÖM 2016; SCHELL 2020; WITT 2019B). The geopolitical turn in international business can be seen as a result of the increasingly important discussion on how geoeconomics is an essential tool for trying to obtain a more favorable geopolitical outcome. Hence, in parallel, the geoeconomic literature analyzes the underpinnings of the international economic order and the subsequent connection (LEONARD 2016; FARRELL – NEWMAN 2020). A recent contribution by Lee (2024) points towards the system approach of geoeconomics that connects parts such as economic integration, technology and geography. However, issues of the problematic aspects of de-coupling are often put forward. At the core there are multinational firms with different geographical anchoring points that will be the main drivers of the changing geoeconomic setting and thus, in combination with government policy, can form an alternative geopolitical context (KATADA 2020). Another aspect in connection with geoeconomics and geopolitics is that activity and policy occur at different levels of the economic geography. It can be on the macro-economic global level, but it could also be in relation to more geographically centered free trade arrangements or even regional and local considerations. It is also through this kind of configuration that the security dimension of geopolitics can be connected to the corresponding geoeconomic action (NAKAMURA ET AL. 2022). This development leads to the multi-layered negotiations of how the international rules-based order should be configured, such as whether it should be through international organizations or bilateral agreements.

With the experienced inherent challenges for multilateral trade agreements, countries in Asia and the EU have strived to push the envelope of a rules-based world order. With this backdrop, the outcome of the economic partnership negotiations between Japan and the EU became even more important. The change in the institutional setting has also

called for a deepening collaboration regarding traditional non-economic issues, thus paving the way for the subsequent formation of the Strategic Partnership Agreement (SPA). Preferential agreements have become part of a larger geopolitical, macroeconomic and security policy context where trade is a concrete element of (a lack of) political intentions and political will. Thus, there is an increasing need to view trade negotiations in the context of a multidisciplinary synthesis of economics and politics where strong stakeholders can utilize the playing field for sustaining a rules-based framework for the long-term goal of achieving a multilateral trade order.

In a situation where the multilateral trade negotiations have been stalled, and various regional and bilateral agreements have partly filled the vacuum, the need for establishing standard rules for the minimum requirements for concluding Bilateral Trade Agreements (BTA) to comply with extended regional agreements, is larger than ever. Likewise, establishing similar requirements for Regional Trade Agreements (RTA) so as to contribute to the higher quality of future multilateral agreements is also a pressing issue. There has been an ongoing debate about how the WTO could play a more active role in improving the quality level of BTAs and RTAs in a new geopolitical environment (SEE, E.G., BALDWIN – THORNTON 2008; WIGNARAJA – LAZARO 2010; WTO 2011; LINDBERG – ALVSTAM 2012). Baldwin and Thornton (2008) suggest a WTO Action Plan on Regionalism involving measures led by the WTO, and RTA and unilateral initiatives to be undertaken, both in the immediate and in the medium term. In the *immediate* term, these initiatives include deepening the Transparency Mechanism; helping developing countries with the challenges of regionalism; WTO soft-law disciplines on RTAs; a plurilateralization of rules of origin and accumulation; automatic third-party Most Favored Nation (MFN) guarantee clauses, i.e. so-called “anti-spaghetti bowl” clauses, in RTAs; development-friendly rules of origin and accumulation; and unilateral MFN tariff cutting and extension of service preferences. In the *medium* term, Baldwin and Thornton (IBID.) recommend “taming the rules of origin tangle”; new sectoral free trade agreements; encouraging open-ended accession clauses; switching to value-added rules of origin; a concise definition of the term “rules of origin”; and, finally, an initiative to encourage nations to use regional templates for new RTAs. The WTO could also consider strengthening its hard-law disciplines on FTAs – although it would be extremely difficult, or even impossible, to enforce, considering the need for consensus within the organization.

A clear definition of what the GATT is calling “substantially all trade”<sup>2</sup> would obviously make assessments of the agreements much easier. However, there is the mere fact that the agreements currently in force or under negotiation vary significantly in their levels of political ambition, and that there is little incentive for parties of less ambitious agreements to agree to higher requirements, as also noted by Islam and Alam (2009). Previous attempts at negotiating new multilateral disciplines on FTAs have only yielded modest and mostly hortatory results (E.G., LINDBERG – ALVSTAM 2012). With this background, the deepened and more formalized agreements between Japan and the EU should be seen as a way forward pushing for a more comprehensive geopolitical context.

## INTERNATIONAL TRADE AND ITS CONNECTION TO GVCS, GPNS AND GEOPOLITICS

The theory of international trade and trade policy has for a long time been dominated by its focus on *direct* trade between countries, which is a natural effect of the traditional organization of external trade statistics. But rather, international cross-border transactions need to be viewed in the context of the emergence of complex Global Value Chains (GVCs) and Global Production Networks (GPNs) to an increasing extent (NEILSON ET AL. 2014; KANO ET AL. 2020). The design and governance of such networks are, in this respect, a clue to a new understanding of the geography of external trade in goods and services (E.G., ATHUKORALA 2011; MACKINNON 2012; YEUNG 2014; YEUNG – COE 2014). The focus in the analysis should therefore be moved from the products in themselves to the “tasks”, i.e., the locations of production of physical goods and invisible services that constitute the nodes between links in the global value chain. It is within this domain that the geoeconomic tools become important for hindering the international networks of economic globalization from functioning or enabling them to function. Thus, a more geopolitically centered approach within international business interacts with the more macro-oriented aspects of geoeconomics. This means that the corporate or firm level perspective becomes more vivid, as opposed to an approach only focusing on strategy or policy tools.

About half of global trade can be defined as consisting of intermediate goods (UNCTAD 2021A). If capital goods are included, the world trade share of products that have not yet reached their final form or intermediary goods



aimed at generating added value *in the production* of final consumer products, is likely to be even higher. Thus, international cross-border trade has to be understood in the context of increasingly complex GPNs, which create the foundation for firms operating in different locations. The structure of such networks reflects the contemporary geography of external trade in goods and services, and combinations in the form of “product-as-a-service” (E.G., COE ET AL. 2019; KANO ET AL. 2020; GEREFFI ET AL. 2021).

With the increasing importance of services in both mature and emerging markets, this translates into new complexities within trade negotiations. The value generation in GVCs and GPNs, the interconnected value between good and services, and the impact of non-tariff barriers and regulations are examples of areas that are probably becoming more important for future trade relations. The technological development that provides opportunities for delivery of digital services across geographies and the dematerialization of services consumption are yet another vital area of future trade complexity (UNCTAD 2021B). The issues of data transfer, cyber security, and connectivity have also been accentuated through the Covid-19 pandemic (STRÖM ET AL. 2022). Thus, these aspects have all become more important from an economic and geopolitical point of view for both Japan and the EU.

Put under the geopolitical lens, the new Japanese interest in a deep-going cooperation with not only the US but also the EU can be understood as a kind of paradigm shift. For Japan, colored by its protectionist industrial policy and bilateral relations with the US, the changing geopolitical dynamics in the Asia-Pacific have necessitated a change of the Japanese position on how regional relations and multilateralism should be shaped (ROTHMAN ET AL. 2017). In other words, the US-centric world view of Japan has changed, and can be said to have aligned with the European appreciation of creating strong links with Japan, and Japan’s approach now goes beyond mere development of traditional trade relations to also upgrading its security policy ties.

## EMPIRICAL CONTEXT

### THE EU INITIATIVES AND ENGAGEMENT IN FREE TRADE PROMOTION

Free trade regimes between countries and regions have given mixed results during the latter half of the 20<sup>th</sup> century. The multilateral trade order within the General Agreement on Tariffs and Trade (GATT), launched in the aftermath of WW2, was highly successful in the creation of a common framework for liberalization of foreign trade with key concepts such as reciprocity, most-favored-nation principles and transparency. The WTO, which succeeded the GATT in 1995, today encompasses 166 members, and more than 95 per cent of the global trade in goods and services. Also, roughly 95 per cent of the average tariff level in the late 1940s had been abolished in the late 1990s after the completion of the so-called Uruguay Round (GATT MTN VIII) in 1993. However, the failure of the Doha Development Agenda (DDA) launched in 2001 – the latest multilateral trade negotiation initiative and the first one under the auspices of WTO to reach a successful conclusion – has initiated a rush to other constellations of trade agreements. These are usually categorized under the label of Preferential Trade Agreements (PTAs). Among PTAs, various types of free trade areas between two or more parties, and more comprehensive economic partnerships including trade and investment rules, as well as deeper coordination of public procurement regulations, mobility of labor, technical harmonization and standardization, and competition policy in general, have become most common ( $\overline{\text{WTO 2011}}$ ). In parallel, there are also efforts supported by the WTO to carry out so-called plurilateral agreements incorporating a limited number of member states<sup>3</sup> in order to strike deals in a specific area, e.g., parts of the service sector. Among all the integration projects aiming to liberalize or completely abolish trade barriers between sovereign states, the European Union still represents one of the more successful examples, and has so far not been copied in its entire shape anywhere else. The successful deep integration within the member states has, though, reached a level where further deepening requires much more political acceptance than currently is the case, and a complementary leg of a joint policy regarding external cooperation, is severely needed. External trade is one of the few policy areas of exclusive supranational competence where individual member states cannot carry out their own initiatives with third countries,

but are subordinate to coordination at the EU level within the Council of Ministers, and the executive role of the European Commission, in which it is responsible for concrete negotiations. EU external trade as a share of world trade has declined from 15.5 per cent in 1989 to 11.5 per cent in 2013. In this context, the EU launched its “Global Europe” strategy in 2006, and in a follow up in 2010, it became part of the new strategy for growth and competitiveness titled “Europe 2020”, and was included in a new communication from the Commission to the Council and Parliament titled “Trade, Growth and World Affairs” (EUROPEAN COMMISSION 2010; AHNLIID ET AL. 2011). This strategy has resulted in both the revival and updating of previous trade agreements and also in a large number of new initiatives.

### **JAPAN’S INITIATIVES AND ENGAGEMENT IN FREE TRADE PROMOTION**

Japan, for its part, besides being an active supporter of the multilateral WTO framework, has also felt the need to take parallel initiatives to various PTAs and EPAs during recent decades, usually in bilateral partnerships, and mostly with countries in the East Asian and Pacific realm, but also with countries in other parts of the world (CHIA 2010; WIGNARAJA – LAZARO 2010; KERR 2016). The by far largest initiative involving Japan is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is the successor to the derailed Trans-Pacific Partnership (TPP), which included the USA and ten other Asian-Pacific nations. With the relaunch of the cross-Pacific trade agreements through the CPTPP, the USA has been working on ways to engage with this new development. Adding to the complexity in Asia, the recent Regional Comprehensive Economic Partnership (RCEP) was launched as a way forward for economic integration combining Southeast Asia through the ASEAN members with the so-called “plus three,” meaning Japan, China and Korea in the northeast. This agreement marks the first agreement where the three larger economies of Northeast Asia are engaged simultaneously. Through the complexity of regional and global value chains and production networks, this agreement will also indirectly impact trade and investment relationships with other large economic stakeholders such as the EU. The EU has pushed for closer relations through bilateral agreements in Southeast Asia (ALVSTAM ET AL. 2017).

## THE JOINT EFFORTS OF JAPAN AND THE EU

The long-term development of the global division of labor and specialization, and the shift of the basic functioning of foreign trade from “trade-in-products” to “trade-in-tasks” in highly complex GVCs in transnational networks of physical and non-physical production, point to the fact that a substantial share of physical production by European and Japanese companies now takes place along GVCs outside their respective territories. Therefore, economic transactions between companies based in the EU and Japan are increasingly occurring outside the EU and Japan, e.g., in China, Southeast Asia, or other intermediary locations. It is noteworthy that these important third-party relations, which are growing in importance, are not explicitly addressed in bilateral trade talks and skew the general picture given by trade statistics (KAWAI – WIGNARAJA 2011; GRAZZI – TOMASI 2016). These third-party relations are considered to be a side effect of the changing geoeconomic context, where trade even between adversaries to some degree continues through these channels (EICHENGREEN 2024).

In efforts to bring the economies closer, the concrete negotiations between Japan and the EU started in March 2013, after six years of intentions to commence such talks. An important starting point of the negotiations – although seldom expressed in official declarations – is that the growth of direct bilateral trade between Japan and the EU has stagnated during the past decades, and, furthermore, that both the EU and Japan’s shares of world trade have decreased substantially during the same period (NAKAMURA ET AL. 2022). Therefore, the initiative to launch a bilateral EPA between the EU and Japan can be labelled as “defensive”, as it aims at restoring previous levels of trade volumes in both directions by building on the changing institutional and geopolitical context. This is a sign of how geoeconomic considerations weigh in as an important aspect for pushing the envelope in a more geopolitically favorable direction.

The free trade talks between Japan and the EU were carried out in a larger global political and economic setting where virtually all major trading partners of the world are negotiating free trade treaties with each other, which creates a new geopolitical business environment as the world trade game board is shifting. In recent years there has been a process of conversion from regionalism and plurilateralism to multilateralization in

the sense that regional and plurilateral trade arrangements may fulfil the general multilateral basic rules. Regardless of which strategy contains the largest mutual economic benefit for the parties involved, various preferential agreements have become part of a larger geopolitical and security-policy context in which trade is a visible element of political priorities or even a lack of political priorities (UNCTAD 2022). Recent developments also show that trade is tilting towards countries that are less geopolitically distant (EICHENGREEN 2024).

## INSTITUTIONAL DYNAMICS OF THE EU-JAPAN EPA

The EU-Japan EPA talks can be seen from the larger context of the European Union's need to take a more active role in world trade negotiations and geopolitics as a reaction to the long-term decrease in the importance of Europe in world affairs (E.G., MÉRAND 2015; FUKUYAMA 2020). This need has been particularly substantiated when it comes to meeting the growing role of Asian economies during the past decades. For the Japanese government, the ongoing macroeconomic problems have been a driving force behind its increased interest in reaching an FTA with the EU and its urgent desire to do so. Thus, it can be argued that in the absence of visible and generally acknowledged results from the previously commenced talks, the EU position has been ambiguous, but a partnership agreement with Japan can be understood in the context of the global race for regional trade agreements (CF. WIGNARAJA – LAZARO 2010; KERR 2016).

The mandate to initiate negotiations with Japan was given at the EU Foreign Affairs Council (FAC) trade meeting in November 2012, and was finally concluded after 18 rounds of negotiations between 2013 and 2017. In accordance with its negotiating mandate, the EU assessed the progress achieved during the first year of the talks and whether Japan had implemented the commitments it made prior to the launch of the negotiations. Despite some concerns, the extensive discussions held between the Commission and the Member States in May 2014 confirmed that the negotiations should continue. The EU, according to the official statement, wanted the negotiations with Japan to address a number of concerns, including non-tariff barriers and the unsatisfactory access to the Japanese public procurement market (EUROPEAN COMMISSION 2014). At the time of the start of the negotiations, it was estimated by the European Commission that

a successful EPA would increase the EU's exports to Japan by 30 per cent, creating 400,000 new jobs (EUROPEAN COMMISSION 2013). Thus, the expected impact of the EPA between Japan and the EU is significant, albeit it is still low in terms of the share of trade to GDP (BENZ – YALCIN 2014). Recent ex post evaluations of the impact and effect of the EPA suggest that there are positive gains from it in terms of increased trade volumes (NAKAMURA – STRÖM 2021; PORTO 2021; YI 2022). This is related not only to its effects on trade, but also to the increased productivity of Japanese firms stemming from the increased international competition in goods and services on the Japanese market, which will yield new employment opportunities in Japan.

During the recent decades, the government of Japan has gradually been explicit about the benefits of FTAs and EPAs in general, and has attributed its engagement in setting up treaties allowing a broader international economic cooperation to the continued globalization of the world economy (MOFA 2002; KATADA 2020). The Japanese government's focus on outward trade relationships has, in its own right, been mainly focused on the CPTPP talks and its consequences. As reflected in government reports (E.G., METI 2013, 2014), the emphasis of the information is less on the trade relations between Japan and the EU than on the free trade talks in the Pacific region. Albeit this is a fully understandable picture due to the more significant implications a plurilateral trans-Pacific FTA would bring about together with other FTAs in the Pacific region, the rather quiet existence of the EU-Japan EPA in the mainstream public debate is noteworthy.

This development can also be understood by being seen through a geopolitical lens, as the EU and Japan position themselves firmly in the changing security situation in the Asia-Pacific and Europe (BERKOFSKY ET AL. 2019). Thus, the EPA and the SPA create a foundation for both the global economic setting, in which firms need to find a viable strategic outlook, and adaptation to the geopolitical dynamics of the 2020s. Due to the liquid nature of GVCs and GPNs, decisions of multinational corporations (MNCs) on production locations as well as the choice of suppliers and first-tier customers in the value chain are crucial. On top of this shifting gravity in the international trade, with the People's Republic of China's (PRC) strengthened geopolitical position in relation to the "traditional" economic, military and political powers, the EU and Japan have suffered from relatively slow economic growth due to structural impediments in their economies. Here,

by including the effects of GVCs and GPNs on trade patterns between the EU and Japan, the EPA can create an important complement to a security cooperation (i.e., the SPA) by utilizing mutual comparative advantages and a revitalization of key domestic industries. One recent example of how this industrial economic and security cooperation has materialized is the EU Commission's initiative to create a framework for a new strategic partnership cooperation with Japan and South Korea focusing on private sector R & D in defense technology (NIKKEI SHIMBUN 2024).

The EPA negotiations also coincided with the complexity of the Brexit vote in the UK. For years, the UK has attracted a substantial share of the total Japanese investments into the European Single Market, in both the manufacturing and services industries. The long-term implications of Brexit and the subsequent free trade deal with the UK and Japan (GOV.UK 2020) will most likely be significant for Japan's economic relation to the Single Market and the trade flows between Japan and the EU. A possible consequence could be a future change in Japan's industrial footprint in both the UK and the EU that could affect the overall trade flows between Europe and Japan. Brexit is therefore an example of a rapid and rather unforeseen institutional change that relates to both international trade and geopolitics at different levels. Other issues such as technological restrictions associated with semiconductor technology, economic sanctions and the transition towards the green economy with battery technology are rapidly connecting geoeconomics and geopolitics on both the macro and micro levels of economic activity with the lens of a system of interconnected capabilities according to Lee (2024).

## WIDENING AND DEEPENING THE EU-JAPAN RELATIONSHIP

The relations between Japan and the EU have been strengthening over the last 10 years (E.G., CONSILIUM 2021; STRÖM - VADI 2023). Against the backdrop of the Economic Partnership Agreement the development of the Strategic Partnership Agreement saw their collaboration in areas that had previously not been clearly elaborated upon within a specific agreement structure. Hence, the EPA could be seen as an important step at a time when the US-EU geoeconomic relationship nosedived through the pausing of the free trade talks across the Atlantic. This trust-building process eventually opened up for concluding the SPA. The EPA and SPA

are also two pieces within an additional set of ancillary agreements and partnerships that have been concluded ([CONSILIMUM 2021](#)). These agreements now cover a vast area of issues that can be connected to both geo-economic and subsequently geopolitical interests. *The Partnership on Sustainable Connectivity and Quality Infrastructure* of 2019 covers a set of aspects that technically deal with physical and digital infrastructure, but also aim at building stronger ties in geographical areas such as the Indo Pacific, where China is trying to create a stronger economic and political influence. One example of these Chinese efforts is the so-called Belt and Road Initiative. *The EU-Japan Green Alliance* from 2021 is more focused on the development of sustainability, where the EU and Japan can use various measures such as geo-economic tools to create a wider political impact. In particular the related agreement deals with the implementation of the Paris Agreement and one important area in it is the promotion of green economic growth and jobs. In this sense, the Green Alliance has a strong connection to both the SPA and the EPA. In the rapidly developing area of digitalization, *the Digital Partnership* from 2022 can be seen as the primary platform for deepening the collaboration around geo-economic networks and systems that are vital for the geopolitical context. Its most important topics are collaboration around resilience in semiconductor production, free flow of data and cyber security, and future telecommunication networks, but also the rapidly changing context of artificial intelligence. In the area of security policy, the recent *Japan-EU Security and Defence Partnership (2024)* aims to deepen their collaboration in areas related to maritime security, space, cyber security, and hybrid threats ([MOFA 2024](#)). The increasingly hostile geopolitical environment in Europe and the Indo Pacific has been a driving force in forming this collaboration of like-minded actors. In other areas, there is additional collaboration regarding transport, education, and research, often supported by deeper bilateral initiatives.

## DISCUSSION

Affecting the geopolitical context, the most striking feature of the EU-Japan bilateral trade is the long-term declining trend in direct trade between the EU and Japan ([NAKAMURA ET AL. 2022](#)). It should also be noted that the importance of the EU for Japanese exports has historically been larger than Japan's importance for EU trade, which is quite natural given the different overall trade pattern of the two parties, where the relative strength



of the US economy has set the trade agenda (*IBID.*). On the other hand, there is also a sharp decline in Japan's trade with the United States, reflecting a major shift from transcontinental to regional external trade, where the PRC has taken over the role of the main trading partner. Seen from the EU perspective, Japan has thus become a marginal partner in the mutual *direct* trade in goods, while the PRC has overtaken Japan's previous role, namely that of its chief trade partner in Asia, being by far the largest country of origin for extra-EU imports. Simultaneously, the EU's trade with the US has declined, but it is still the main trade partner for the EU. This dynamic development has an important impact on the geopolitical context in both the Asia-Pacific and Europe, and ways to interpret the current pattern of world trade relations.

The gap between EU exports and imports and Japan (i.e., the trade imbalance) is about to close. The picture is more inconclusive for the EU's share of Japan's total exports and imports, but the overall trend is a declining pattern, albeit a less dramatic one than in the case of Japan's share in the EU trade (*IBID.*). The previously large bilateral trade surplus of Japan towards the EU, and the corresponding reported bilateral deficit in the EU's trade with Japan have both more or less vanished, and the mutual flows are coming close to balance. There is, however, a certain systematic bias between reports from the respective parties in the sense that the EU's relative deficit is constantly larger than Japan's mirrored surplus.<sup>4</sup> This bias is due to *indirect trade*: i.e., exports from Japan to the EU are recorded as exports by Japan to an intermediary country categorized as a "final export destination", which is normally another Asian country, while in the EU statistics, they are recorded as imports from Japan following the rules of origin principle. Such bias is important to consider when trying to understand the trade gap between the EU and Japan.

Japan and the EU moved forward in the negotiations for a new type of international agreement on the basis of the increased economic and political platform of the EPA. Originally, it was the economic relationship that formed the starting point for the EPA negotiations, as the new geopolitical context with the large export markets of the EU and Japan became the logic core of the discussions. The evolving economic relationship between the EU and Japan during the post-war period not only was formalized through the EPA and created a platform for a broad economic partnership but it

also created a framework for corporate level collaboration and competition. With the geopolitical relationship deepened through the EPA, it was no coincidence that policymakers started to consider widening the geopolitical collaboration in areas outside the traditional economic circles. The outcome was the Strategic Partnership Agreement (SPA), which stresses the mutual commitment towards a rules-based world order that was set to expand the collaboration interfaces between the two parties (NAKAMURA – STRÖM 2021; STRÖM ET AL. 2022). Seen in this way, the SPA can build a new institutional setting based on the closer economic relations that would favor a broader collaboration in areas related to security, digitalization, energy and connectivity, which is a development to be expected from such an inter-state dependency relationship (BLANCHARD – RIPSAN 2008; OKANO-HEIJMANS 2016). Moving in the direction of wider geopolitical implications can also be seen as pushing the Japanese agenda for a Free and Open Indo-Pacific (FOIP) (HOSOYA 2019). With the more complicated impacts on trade against the backdrop of the war in Ukraine, new ways of collaborating among trading partners have become paramount, as the EU is seen as an increasingly important strategic partner for geopolitical and security reasons.

In addition, the format of a legally binding agreement made the SPA stand out from other, more “communique” style of agreements in areas other than trade and investments. The SPA has a huge potential to gain key importance in relation to trade and business connectivity (SEKINE 2020). The Covid-19 pandemic has shown the increasing importance of connectivity and digitalization in relation to data transfer within and between corporate entities. These are spheres within the EPA that are key opportunities for future development of trade in services, and the associated foreign direct investment, which we also see in the development of similar agreements in the Pacific (KAWAI 2005; KERR 2016). With increasing data transfer possibilities and value being generated at the interface of service content and goods, the economic interconnection through the respective agreements will be vital for the future development of the political economy and business model connectivity. The two agreements can reinforce each other in enabling new institutional dynamics that are often lacking among stakeholders trying to establish deeper economic relations.

As a result of these agreements, which are concrete expressions of the bilateral initiatives discussed by, e.g., Kawai (2005) and Okano-Heijmans (2016),

a set of related agreements have been concluded over the course of the last five years. The digital agreement, the Partnership on Sustainable Connectivity and Quality Infrastructure, and the Green Alliance, have created a wider platform for the EU-Japan relationship and are all examples of the deepening geopolitical relationship and a result of a more complicated global security and economic context (E.G., KERR 2016; AGGARWAL – REDDIE 2021). Recent additions in the area of defense collaboration have furthered and both deepened and widened the areas where Japan and the EU are expanding their collaboration. Without the EPA and the SPA, it would be difficult to move ahead with the closer collaboration in other areas, such as sustainability issues and actions addressing climate change. Considering climate and sustainability challenges for the wider society and business, finding new ways for international collaboration is essential. The green economy transition will be dependent on the combination of public policy and private industry initiatives (E.G., JONES – STRÖM 2024). It also creates a regulatory environment that other countries and organizational actors trading with Japan and the EU have to adapt to. Increasing the economic and security collaboration can facilitate the joint commitment towards the challenge of sustainable energy and the wider climate crisis in the face of increased geopolitical tensions in the proximity areas of both the EU and Japan.

The empirical part of this study also suggests the complexity associated with future trade agreements, economic diplomacy, and geoeconomics. Thanks to free trade agreements, the mutual trade barriers might have been overcome, but challenges in relation to ad hoc regulations and non-tariff barriers play a bigger role for future trade and production. Furthermore, the negative expressions of economic statecraft (LEW – NEPHEW 2018; AGGARWAL – REDDIE 2021) and the mounting trade tension between China and the US, emphasize the need for the EU and Japan to create a stable economic cooperation. Despite the close collaboration that exists between Japan and the US in defense, the recent debate over the attempt by Nippon Steel to buy US Steel has run into issues of national security concerns and geoeconomic tensions. However, this might open up opportunities for further consolidation and collaboration between Japanese and EU businesses. The discussion on rapidly increasing the production of semiconductors in both Europe and Japan, together with plans for various regulatory and tariff barriers in the trade with China, can be seen as a result of the rising geopolitical complexity as GVCs and GPNs will be more entangled

in security aspects and economic resilience. Therefore, in contrast to the mainstream literature on international trade (E.G., BALDWIN – THORNTON 2008; WIGNARAJA – LAZARO 2010; ATHUKORALA 2011; YEUNG 2014), which discusses political dimensions narrowly with a focus on trade diplomacy and the political influence on GVC and GPN localizations, our findings point to the necessity to acknowledge the increasing importance of introducing security policy as an explanatory factor in understanding the changing structural logics of the contemporary international trade.

## CONCLUSIONS AND IMPLICATIONS

In this paper, we have addressed the development of the EPA and its role as the gateway to the EU-Japan SPA and associated agreements such as those on, e.g., digitalization and connectivity. We have argued that geopolitics and political considerations are increasingly influencing well-established trade relations such as those between Japan and the EU, where common interests in terms of seeing trade as a tool for economic development are complemented by geopolitical security issues. The emergence of the PRC as a dominant regional power in the Asia-Pacific and its rivalry with the US, accentuated by the PRC's economic policy uncertainty and the ongoing Russo-Ukrainian conflict, have put pressure on both Tokyo and Brussels to further develop their cooperation in the economic and security fields. This development is reflected by the EU-Japan EPA and SPA.

The literature review and the empirical setting suggest that the EU-Japan EPA and SPA have created a renewed framework to address not only trade and connectivity promotion, but also the increased uncertainty and possibly the shifting power balance in the world, which affects both Japan and the EU. These agreements have also acted as an umbrella for additional agreements on more specific issues that are connected to both geoeconomics and geopolitical outcomes of the Japan-EU relationship. The need to understand the current urgent need of the EU and Japan to seal closer bonds in a number of areas is an obvious reflection of the changing global geopolitical landscape. Furthermore, we understand the EU-Japan EPA and SPA as concrete products of the recognition of the mutual concerns over the prospects of maintaining economic growth, the increased political tensions between China and the US, and the perceived need for tighter protection of national interests in terms of military and cybersecurity threats.

To answer our research question, we propose that the EPA has laid the foundation for a closer political cooperation necessitated by the overall geopolitical realities. Without the two parties' mutual understanding of the need for such a close economic partnership, it would have been less likely that additional agreements shaping the geopolitical setting would be possible to achieve. In fact, this has so far created a foundation for a cooperation framework in three concrete areas. First, Japan and the EU have seen a deepening integration within security policy, forging a more coherent collaboration in the aftermath of the war in Ukraine. In other words, their mutual geopolitical concerns have resulted in the recent Japan-EU Security and Defense Partnership. This partnership includes already agreed economic security measures such as sanctions and divestment of industry, but also a deeper military collaboration, primarily within the defense industry.<sup>5</sup> This geopolitical development has also enabled a closer collaboration within value chains and production networks in East Asia, not least in semiconductors and related electronics. Second, the new geopolitical context has fostered a deepening of the collaboration within digitalization, connectivity and cyber security. Since digitalization is increasingly important for the global industry in relation to competitive advantages and efficiency, delivery of public services and security policy, the EU and Japan have moved ahead with developing their collaboration to strengthen resilience in these societal sectors. Third, the Green Alliance encapsulates many challenges in relation to the transition towards the green economy. It comprises issues such as energy, smart city development and the usage of digitalization. In addition, the Green Alliance seeks to capitalize on the strong position of industry in both the EU and Japan, and facilitate a collaboration with developing countries around the world.

It is still too early to verify the long-term strategic significance of the EU-Japan partnership, but there are several opportunities for forging tighter political and economic bonds between Japan and Europe based on their common belief in and commitments towards a rules-based world order, and such bonds could serve as a demonstration of the unity that can be created if geopolitical and economic interests align. With a second Trump term in the US, the current Ishiba government needs to balance its relationships with the US and the EU. Regarding issues related to the functioning of a rules-based world order, it is probable that we will see closer tie-building within the Japan-EU relationship. Further research on this

would need to explore the development of this bundle of agreements and their respective impacts on geopolitics. These future studies would benefit from a cross-disciplinary perspective within the area of political economy and international business.

## ENDNOTES

- 1 The EU-Japan EPA consists roughly of two parts, each associated with a complicated structural regulatory framework. Under this agreement, free trade is permit-based, as individual firms are required to register with national authorities to engage in tariff-free trade. The investment agreement is still subject to further negotiations, as there are some disagreements between the European Commission and the Japanese government regarding, e.g., disputes.
- 2 This term is addressed in GATT Article XXIV, article 8, which treats the legal definitions of trade in and between customs unions and free trade areas at the overall level.
- 3 As compared to "multilateral" agreements, which include *all* the member states, following the WTO definition.
- 4 For example, in 2014, a contradictory situation occurred in which both sides reported deficits, illustrating clearly the effects of the differing definitions of import/export destinations between Japan and the EU.
- 5 The most recent example of this military collaboration is the consortium formed by Mitsubishi (Japan), Leonardo (Italy), BAE Systems and Rolls-Royce (UK) for developing next-generation fighter aircraft (Nikkei Asia 2024). Furthermore, the EU Commission aims at reaching a defense industry cooperation agreement with Japan and South Korea before the end of 2024 (Nikkei Shimbun 2024).

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## NOTE

*The authors would like to thank the discussants and participants at the EJARN conference hosted by the Institute of International Relations, Prague in June 2024. In addition, the authors would like to thank the reviewers of the paper and the editor of CJIR for their invaluable comments.*

*Patrik Ström would also like to express his gratitude to the Scandinavia-Japan Sasakawa Foundation (SJSF) for their financial support.*

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